

SAVING PRIVATE CAPITALISM: THE U.S. BANK HOLIDAY OF 1933

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This paper examines the week-long U.S. bank holiday of 1933, in which President Franklin D. Roosevelt responded to a banking panic by closing all of the banks and promising that the government would review them and reopen only those that were solvent. When the banks reopened the panic was over, as deposits far outstripped withdrawals. This paper provides a detailed look at the bank holiday, with a focus on the review and selective reopening of the banks. It also tries to assess the relative importance of the bank review in rejuvenating public confidence and hence in the overall success of the bank holiday.

Of the momentous First Hundred Days of Franklin D. Roosevelt's presidency, perhaps most remarkable of all were the first ten, which saw the resolution of the worst banking crisis of the Great Depression. While economic historians are somewhat divided over the New Deal's overall economic impact, there does seem to be consensus that the bank overhaul was a great success.¹ "Capitalism was saved in eight days," wrote Roosevelt adviser Raymond Moley, in reference to the days from March 5, 1933, when the bank holiday proclamation was issued and the drafting of the Emergency Banking Act began, to March 13, when the first banks reopened.² New Deal supporters and skeptics alike (Moley himself was both at different points in his career) generally agree that these measures saved, if not capitalism, then at least the banking system.

The economic history literature on the bank holiday typically asks how and why it worked. This paper places special emphasis on a relatively neglected aspect of the bank holiday, namely the government's extraordinary effort to review thousands of banks to determine which ones should be allowed to reopen and under what conditions. Considering that these determinations had to be made in less than a week, the story is not surprisingly a dramatic one. In view of the thousands of bank failures of the previous three years and the rational fears of many depositors that their own banks might be next, accurate assessments of bank solvency would seem to have been vital. Even if these assessments were flawed, a likely outcome considering the extreme time and data constraints, the process needed to inspire public confidence that the reopened banks were indeed safe.

This paper recounts the story of the bank review and attempts to determine its importance in the bank recovery that followed. For sources the paper relies mainly on accounts by principals in the bank rescue operation and contemporary news sources. But first some background seems necessary. Of the four banking panics of the Great Depression, the 1933 crisis was the most severe. By most accounts it began on February 14, when the governor of Michigan declared a state bank holiday after the breakdown of negotiations over a Reconstruction Finance Corporation (RFC) loan to one of the state's largest bank groups. A contagion of bank panics and holidays in other states and cities ensued. By the morning of Roosevelt's inauguration on March 4, all 48 states had declared bank holidays or otherwise restricted payments.³

The day after the inauguration Roosevelt proclaimed a four-day bank holiday, March 6–9. The Emergency Banking Act (EBA) was passed by both houses of Congress and signed into law by Roosevelt on March 9. Its key provisions did the following: retroactively declared the bank holiday to be legal and allowed the President to prohibit gold transactions and ban private gold ownership; allowed the government to reopen the banks selectively, by licensing the healthy, appointing conservators for the struggling, and closing the terminally insolvent; allowed the Treasury to direct the RFC to shore up undercapitalized banks through preferred stock purchases; amended the Federal Reserve Act to allow for the creation of new Federal Reserve Bank Notes, which could be backed by various bank assets, not just gold. Later that night, Roosevelt extended the bank holiday indefinitely. On Sunday, March 12, he delivered his first “fireside chat” over the radio, announcing the gradual reopening of the banks. On Monday many banks reopened in the twelve Federal Reserve cities, and multitudes came to make deposits, not withdrawals. The reopening of banks in other cities on Tuesday and Wednesday elicited similar popular responses. By Thursday the bank review was complete, and 70 percent of the banks, with some 90 percent of total deposits, had reopened.

Literature Review

Scholars have advanced various explanations, not necessarily mutually exclusive, of the end of the banking crisis. Roosevelt's extraordinary communication skills are often mentioned, along with his first fireside chat on the banking crisis. So are the anti-gold hoarding measures in the original bank holiday, subsequent proclamations, and the EBA. Among the EBA's provisions that have been credited with ending the crisis are its provision for recapitalization of struggling banks through RFC preferred stock purchases; its creation of a new, more elastic currency to satisfy depositors' needs; and its licensing process for reviewing and selectively reopening the banks. Mitchell (1947) primarily credited Roosevelt's fireside chat: “His words and tone of voice were more effective than any quantity of statutes and Treasury mechanism...”⁴ By contrast, Schlesinger (1958) said the public got

“ushered in almost a springtime mood,” and the dramatic one-day passage of the EBA, which seemed to touch off a flood of gold and currency deposits back into the banking system.⁵ Studenski and Krooss (1963), like Mitchell, put the focus on the fireside chat: “Confidence was restored by the President’s air of optimism.”⁶ Kennedy (1973), while downplaying the gold regulations, found significance in all of the other factors, including the government’s rapid review of the banks. She also noted the government’s role in keeping the banks sound after the immediate crisis.⁷

Wicker (1996) also emphasized the bank rescue operation. “The solution rested at the national level, and the first step was to close all the banks and then determine which banks would be allowed to reopen.”⁸ He contended that the licensing process, with assurances that the reopened banks would be fully sound, succeeded in restoring public confidence in the banks.⁹ Beyond the initial reopening of the banks, the RFC capital injections were critical in regenerating the banks that would reopen in the months ahead. Wicker said the policy of licensing banks, with its lack of predetermined standards or an appeals process for banks denied a license, was questionable but ultimately successful. He took the licensing authorities’ determinations more or less at face value, stating that they “fully revealed” the extent of insolvency within the banking system, with 50 percent of banks (holding 90 percent of total deposits) deemed solvent and ready to reopen, 45 percent deemed partially solvent and requiring conservatorship, and 5 percent (about 1,000 banks) deemed insolvent and needing to be liquidated.¹⁰

Other scholarship put the emphasis on monetary factors, such as gold reserves and the new currency. Wigmore (1987) said that gold deposit flows were both the main cause of and solution to the banking crisis. To Wicker, the banking panic was essentially a run on gold, due in part to fears that Roosevelt would devalue the dollar by reducing its gold content. In his view, the EBA effectively ended the run on gold by making it illegal, i.e., by giving the President the power to restrict and even ban private gold holdings. The day after the act’s passage, Roosevelt issued an executive order banning gold withdrawals, and there was a “gold rush” as people deposited gold into the Federal Reserve banks, which dramatically shored up the banking system’s reserves.¹¹ Wigmore argued that the government’s selective reopening of the banks could not have been a major factor, because it “had too many weaknesses to create much confidence, given the number of banks reopened, the speed with which they opened, and the lack of current information on them. There were no standards for judging which banks should reopen.”¹²

Silber (2009) credited a different provision of the EBA, namely its authorization of the new Federal Reserve Bank Notes, which created a virtually unlimited standby supply of reserve currency. This was “de facto 100% deposit insurance,” nearly ten months before the FDIC, and the dominant factor in ending the bank crisis, according to Silber.¹³ The public had to be well aware of the new currency, as Roosevelt had highlighted it in his March 12 fireside chat, promising that the reopened banks would have plenty of cash available for withdrawals. Silber discounted the notion

that the bank review played an important role, because “only the financially naïve would have believed that the government could examine thousands of banks in one week to identify those that should survive.”¹⁴

These monetary explanations appear overly narrow. The bank panics essentially were crises of confidence in the banking system, and neither a brute-force measure like confiscating gold nor the printing of new money sounds like a confidence builder. While these measures surely helped ensure that the banking system had adequate reserves, they would seem insufficient in themselves to explain why the reopening of the banks prompted millions of Americans to stand in line to make non-gold deposits and brought such a widely reported surge in public confidence about the banks. To the extent that the banking crisis reflected fears of bank insolvency as opposed to mere shortages of cash, a renewal of depositors' faith in the solvency of their banks seems to have been indispensable in ending the crisis. Wigmore and Silber seem to have dismissed too hastily the notion that the bank review process could have been important. The public likely did not know how incomplete the bank reports were and may well have been financially naïve; even more sophisticated sources like *The Wall Street Journal* and *Business Week* did not question the soundness of the review process or the reopened banks.

Behind the Bank Holiday

The laborious process of determining which banks should be permitted to reopen took place over the course of five days, during which bank records were scrutinized and half of the banks were deemed ready to reopen right away. Before recounting that process, this section describes the initial contacts between incoming Roosevelt officials and outgoing Hoover officials. The section concludes with Roosevelt's fireside chat on the eve of the first day of bank reopenings.

The principal Roosevelt administration officials here were Raymond Moley and William Woodin. Moley had been chief among Roosevelt's “Brains Trust” of academic advisers in the 1932 campaign and had become Roosevelt's top domestic policy aide. His advice included the appointment of Woodin as Secretary of the Treasury. Woodin was offered the job and accepted it less than two weeks before inauguration day, after Senator Carter Glass (D-Va.) declined the position. Unlike Glass, Woodin had comparatively little experience in banking and held no strong views. His health was fragile, apparently more so than anyone realized at the time. But as president of the American Car & Foundry Company, a director of the New York Federal Reserve, a Republican, and a big contributor to Roosevelt's campaign, he seemed well rounded and was well liked.¹⁵ Moley had been in the cross-fire of lame-duck President Herbert Hoover's ill-fated communications with President-elect Roosevelt on economic matters.¹⁶ In the course of those contacts he got to know Hoover Treasury Secretary Ogden Mills, whose financial expertise he greatly respected.¹⁷ But a productive transition did not begin until two days before the inauguration, when Roosevelt's party

arrived in Washington, D.C., and Woodin contacted the Hoover holdovers at Treasury.¹⁸

At the Treasury Department, Hoover officials and various Federal Reserve officials had been working feverishly toward a solution to the banking crisis. That evening they had been in an emergency conference in Mills's office. As state bank holidays mounted, the group had pushed for a national bank holiday and even drafted a proclamation for one. But Hoover had rejected such sweeping action. At this point in the interregnum Hoover was generally unwilling to take action without Roosevelt's public endorsement; he also preferred a more limited cessation of bank business, in which gold and currency withdrawals would be restricted. And Hoover questioned whether the supposed authority for the bank holiday, the Trading With the Enemy Act of 1917, would survive a legal challenge. Woodin reported on the Treasury proposals to Moley and Roosevelt. The President-elect declined to do anything more than not oppose a Hoover proclamation on the banks, but the conferees would soon get a bank holiday. The next afternoon, on Friday, March 3, brought news of plummeting gold and currency reserves, especially in New York. By late that evening Roosevelt had accepted the conferees' advice and told Glass he would close all the banks. At the Treasury Department, another evening conference was still in process. Having failed to get Hoover to issue a national bank moratorium, the conferees tried to convince the states. About half the states had already declared bank holidays or restricted payments. The conferees attempted to reach the governors of New York and Illinois, reasoning that bank holiday declarations there would induce the rest to follow. A couple hours after midnight, on March 4, they secured bank holidays in those two states, and the nation woke on inauguration day to bank holidays in all 48 states.¹⁹

As Moley later noted, the night was also consequential in that he and Woodin established an extraordinary working relationship with the Hoover holdovers. At one in the morning, with Roosevelt's inauguration just hours away and the president-elect's hotel suite still buzzing with talk of the banking situation, Moley said good night and left for his own quarters. In the lobby he saw Woodin, who said he had been unable to sleep: "This thing is bad. Will you come over to the Treasury with me? We'll see if we can give those fellows a hand."²⁰ Thus began the first of many bipartisan late-night Treasury conferences. Among the conferees were Acting Comptroller of the Currency Francis Gloyd Awalt, who would oversee the licensing of the banks, and Undersecretary of the Treasury Arthur Ballantine, who would serve as liaison between the Treasury and Roosevelt.²¹ The principal personnel stayed much the same even after the inauguration.²² Mills played a regular background role for the first few days of the new administration.²³ Walter Wyatt of the Federal Reserve said that after Mills left, Ballantine "was practically Secretary, because still Mr. Woodin, he wasn't well for one thing, and he never did know what it was all about."²⁴ Of the Hoover holdovers, a reporter wrote, "These men knew the Treasury machinery as no one else could. They knew the proper specialist to reach for information and

advice. They knew the proper weight to give the advice that came from such sources. Without them the Treasury might have been swamped in a thousand details.”²⁵

Roosevelt’s legendary inaugural address on March 4 contained only one mention of banking and hardly hinted at the content of the EBA, which at that time was still undetermined. It is notable, however, that the speech’s call for a special session of Congress was something the Hoover holdovers had wanted, to sanction the bank holiday and pass emergency banking legislation.²⁶ The speech’s smashing success in raising the nation’s confidence — Will Rogers wrote that “the whole country is with him” — surely carried over to the President’s banking initiatives.²⁷ The role of public confidence can hardly be overstated. The state bank holidays, far from inspiring confidence, had sparked a contagion of bank runs and bank holidays in other states; a national bank holiday would have been of little use without faith that a better banking system would soon arrive. (Then again, part of the logic of a national bank holiday was that state bank holidays often sparked bank runs in other states as depositors feared a shutdown of banks in their states; a national bank holiday would not have that problem because all the banks would already be shut down.²⁸) Likewise, taking the administration’s word about the soundness of the reopened banks would take considerable faith. Roosevelt’s mastery of political communication was of tremendous indirect value even before his administration had formulated a single economic policy. Moley wrote that he and Woodin “knew how much of banking depended upon make-believe or, stated more conservatively, the vital part that public confidence had in assuring solvency.” Two days later, as Treasury conferees sketched the broad outlines of an emergency banking bill and a plan for selectively reopening the banks, Moley and Woodin agreed that Roosevelt himself should be the one to explain the reopening process, first to the press and then to the public in a radio address. “There was magic, we knew, in that calm voice.”²⁹

The bank holiday proclamation was issued shortly after midnight on Monday, March 6. Unlike the forthcoming fireside chat, it was short, statutory, and contained nothing that seemed intended to rally the public. It stated that hoarding and gold outflows had created a national emergency and justified the bank holiday as a means to prevent hoarding. The proclamation announced that for four days, March 6–9, “all banking transactions shall be suspended.” It allowed the Secretary of the Treasury to make certain exceptions, including allowing special accounts for new deposits.³⁰ Of those new accounts, *The Miami Herald* wrote, “Thus it is hoped that money hoarded and previously withdrawn for safekeeping will come back to the banks.”³¹ It made no promise of sweeping actions to come, other than saying that the interval would provide “a period of respite ... permitting the application of appropriate measures to protect the interests of our people.”³²

46 Neither the incoming nor the outgoing Treasury officials knew just what those “appropriate measures” would be. Although policies

had been discussed at previous Treasury conferences by Hoover officials, consensus had yet to be reached. Wyatt said later:

The incoming administration apparently had no plans about the banking system, none whatever, so far as I could tell. I don't know what the devil would have happened if there hadn't been a small group of devoted people there in the Treasury building, the Comptroller of the Currency's office, the Secretary of the Treasury's office, and some members of the staff of the Federal Reserve Board.... Poor, dear Mr. Will Woodin was a sweet man, but he didn't know the first thing about it.³³

Moley, by his own admission, had even less background in banking.³⁴ The task at hand was to complete an emergency banking bill in time for the special session of Congress, which was to begin on Thursday, March 9, the last day of the bank holiday. Ballantine said the key figures in the bill's formulation were Mills, himself, New York Federal Reserve Governor George L. Harrison, and Central Hanover Bank and Trust Company President George W. Davison. Woodin presided at the meetings but deferred to their expertise.³⁵ Awalt played an important role as well.³⁶

Moley attended the proceedings and helped draft the fireside chat in which Roosevelt explained the new banking act to the public, but played down his direct involvement. He wrote later that as a Columbia University professor and onetime William Jennings Bryan devotee, he had a reputation, by then long since undeserved, for radicalism. In his accounts of the crisis Moley emphasized the need to reassure not only the public but also bankers, who had a limited tolerance for unorthodox solutions. In fact, presidents of several of the nation's largest banks attended those conferences. Moley approvingly noted the deliberate "blacking out of the reputedly left-wing presidential advisers (Berle, Tugwell, and myself) during the crisis."³⁷ In the fireside chat Roosevelt said, "I hope you can see, my friends, from this essential recital of what your Government is doing that there is nothing complex, nothing radical in the process."³⁸

From Sunday morning through Wednesday, the group endured "four interminable days and nights of conferences with the bankers" on how to restore confidence and what the emergency banking bill should look like.³⁹ The conferees reached early agreement on the need to prevent further drains of gold. While the initial suspension of the gold standard was only temporary, the week saw successive steps to centralize and conserve the nation's gold stock. On Tuesday, March 7, the Treasury announced that member banks of the Federal Reserve had to bring their gold to a Fed bank. On Wednesday, the Federal Reserve announced that it would publish names of gold hoarders (defined as anyone who had withdrawn gold on or after February 1 and had not returned it) on March 15. The announcements begat a flow of gold into the banks. Although gold hoarding had not yet been declared illegal, Roosevelt had helped stigmatize it, and gold owners apparently feared adverse publicity.⁴⁰ The return of gold to the banks became a "gold rush" 47

with Thursday's passage of the EBA and Friday's executive order banning private gold holdings. As a result, the banks received a big infusion of reserves, which eased the liquidity shortage and enlarged the monetary base.

By Tuesday night, Ballantine, Awalt, Harrison, Woodin, and Moley had a blueprint for a bill, which they brought to Wyatt and asked him to draft.⁴¹ The final EBA contained virtually no mention of how or when banks would be permitted to reopen, let alone guidelines for the upcoming review and reopening process for the banks. Instead, it broadened the President's authority over the banks, and a subsequent executive order placed the bank licensing authority with the Secretary of the Treasury. The process of deciding which banks could simply reopen, which ones could reopen with financial assistance, and which needed to be reorganized or liquidated was decidedly *ad hoc*. The closest the bill came to establishing a procedure for reopenings was Title II, the "Bank Conservation Act," which allowed the Comptroller of the Currency to appoint conservators for insolvent banks. A conservator could appraise the bank's assets and determine whether and when it should reopen and under what restrictions. Title III provided another path to reopening and solvency, by allowing banks to sell preferred stock to the RFC. The Treasury Secretary was also given the authority to request that the RFC buy preferred stock from particular banks or make loans to them with preferred stock as collateral. The bill was finally completed Wednesday afternoon, March 8, and brought to Roosevelt. Asked at the end of the day if the bill was finished, Woodin said it was and added, "You know my name is Bill, and I'm finished, too."⁴²

In the space of nine hours on Thursday, March 9, the EBA was introduced in Congress, passed overwhelmingly by both chambers — by voice vote in the House and 73–7 in the Senate — and signed into law by Roosevelt. Although officials and staffers at the Treasury and the Federal Reserve were already physically and mentally drained from the long days and nights of the previous week, they, together with regional Federal Reserve bank officials and the District Chief National Bank Examiners, now faced the task of reviewing all 5,938 national banks and about 1,000 state banks that belonged to the Federal Reserve System.⁴³ Awalt described the toil as follows:

The long hours and continuous pressure on all of the staff involved was enormous. Sleep was practically unknown to many of us. My usual routine was to arrive home in the morning, around seven, get a hot toddy, have a shower, and return to the Treasury. Without Mrs. Awalt's warding off the telephone calls, which came in constantly during the brief period I was home, I undoubtedly would not have survived.⁴⁴

The work took its greatest toll on Treasury Secretary Woodin, who was already in poor health. Marquis James & Bessie Rowland James wrote of Woodin: "A man of frail physique, he had gone through a week that
48 might have broken an athlete."⁴⁵ Moley noted that Woodin labored under

a throat ailment during the crisis and that his hard work exacerbated his condition. After the crisis, he found it necessary to take more and more time off. "He went to New York for treatment.... It is not emphasizing unduly the significance of this chain of circumstances to say that Woodin was unquestionably a victim of the strain under which he had labored to restore order in the financial system of the country."⁴⁶ Woodin's term officially ended at the end of 1933, and he died in May 1934.

According to a contemporary account, the officials were "subject to enormous political pressure" from individual banks to grant licenses, which they fended off by making "themselves inaccessible, or nearly so."⁴⁷ The administration wanted the review to be completed within the next few days, so that as many banks as possible could reopen the next week. The day after the bank review began, Roosevelt issued an executive order authorizing banks to reopen as early as Monday if found to be sound.⁴⁸ The next day, Saturday, March 11, he issued a statement announcing the following reopening schedule: Monday, member banks in Federal Reserve cities; Tuesday, banks in the 250 cities with clearinghouse associations; Wednesday, other banks. But it was not yet known just which banks those were, nor had banks been notified.⁴⁹ And as the Treasury and Federal Reserve had no jurisdiction over (let alone data on) nonmember state banks, it was up to state banking authorities to make determinations about the nation's remaining 11,000 banks.⁵⁰ The state bank evaluation determinations appear to have been similarly feverish, judging by contemporary descriptions of New York State's review of nonmember banks that weekend.⁵¹

The process of reviewing the banks resembled a plan outlined by Mills on March 4. According to that proposed plan, banks would be classified as A, B, or C, with the Class A banks allowed to reopen immediately. Awalt initially estimated that approximately 2,200 (37 percent) of the 5,938 national banks belonged in that group. A few days later, as the sole witness for the EBA before the Senate Banking and Currency Committee, he testified that 2,600 banks could be opened without the EBA and 5,000 with the EBA.⁵² Class B banks would be allowed to reopen on a restricted basis and/or with additional capital from private sources or the RFC. Class C banks would not be allowed to reopen unless and until they could be reorganized under a conservator. The logic of the proposed staggered openings was that the initial wave of Class A bank openings, if successful, would bolster public confidence for the Class B openings.⁵³ Although no classification scheme was published, reports leaked out after the bill's passage that the banks had already been rated as such. The Treasury was deluged with telephone and telegraph inquiries from bankers and depositors anxious to learn the designation of their institutions. Any classifications of individual banks were never released publicly, for fear of stigmatizing banks with ratings below "A."⁵⁴ Before the first banks reopened Roosevelt would assure the public that the still-closed banks were not necessarily unhealthy but that the experts were not finished evaluating them.

The nationwide "survey" of 7,000 banks was to be conducted 49

immediately, with field examinations “where necessary.”⁵⁵ This was not reconcilable with the stated goal of reopening the banks as soon as possible, so inevitably many corners were cut. “Calculations were necessarily as rough as they were speedy,” wrote Broadus Mitchell.⁵⁶ On-site bank examinations had typically been conducted twice yearly for national and state member banks, but those reports tended to be obsolete in the rapidly shifting economic sands of 1933.⁵⁷ Moley explained, “The task of sifting out the sound banks that were within the jurisdiction of the Federal government was difficult enough for them to handle in the limited time available. A great part of the decision-making fell upon Awalt. He and his staff had material data on these banks, but it had to be supplemented by information gathered by telegraph and telephone.” Moley elaborated:

There was little time for deliberation. The office of the comptroller had to sort out and classify the banks under its jurisdiction as the sound, the unsound, and the doubtful. Considering the miscellaneous mass of information about what were called assets, this involved quick value judgments, almost in the nature of speculation. For none could be sure until later how high the tide of confidence would rise at the time of reopening.⁵⁸

Wyatt implies that even recent examiners’ reports would have been of limited use:

All they could do was to go on the information that they got from the bank examiners’ reports, and from what knowledge the Federal Reserve Bank had of the banks, and the knowledge the Comptroller of the Currency had from other sources as to the condition of the banks. We never could be certain, because we couldn’t be sure that the bank examiner knew what he was doing.⁵⁹

Historian Robert Fuller calls the assessment process “a grand charade of ‘examinations,’” most of which took place over the long weekend after the passage of the EBA. State, federal, and Fed bank officials had to read the latest reports on hundreds if not thousands of banks and make their determinations. In Philadelphia, Federal Reserve Governor George Norris, faced with the impossible task of reading and acting on 800 bank examination reports over the weekend, instead met with the president of the Philadelphia National Bank and compiled a list of the area banks they thought were sound. Fuller quotes from a 1944 letter from Wyatt to Ballantine: “What would it have done to public confidence if we had published the formula finally adopted for determining which were sound banks there were to be permitted to reopen?”⁶⁰

In keeping with the premium placed on public confidence, officials chose to err on the side of reopening too many banks instead of too few. A case in point was the Bank of America, with 410 branches and one million depositors in California. San Francisco Federal Reserve Governor

John U. Calkins opposed the bank's reopening, citing a regional examiner's July 1932 report warning that continued economic decline would put the bank in jeopardy. Awalt, after consulting a later report which showed the bank to be solvent, recommended the bank reopen. Typically the regional Federal Reserve governor signed off on these decisions, so Woodin called Calkins. When Calkins said no, Woodin asked, "Are you willing to take the responsibility for keeping this bank closed?" Calkin said no. Woodin replied, "Well, then, the bank will open."⁶¹

Probably the ultimate boost to public confidence in the banks came from Roosevelt's first fireside chat, on Sunday, March 12, the day before the Class A banks would reopen in the twelve Federal Reserve Bank cities. The radio address dealt with the banking crisis, so appropriately its drafting had involved two of the key figures in the Treasury conferences, Moley and Ballantine. Moley recounted that they read over a speechwriter's original draft and thought "it lacked precision and substance" and needed a complete overhaul, so that it would offer a clear explanation of the bank rescue operation. Ballantine "substantially composed a new draft," which became the fireside chat.⁶² The speech was a masterful explanation of the EBA and the bank reopening process as they affected the average American. Roosevelt told listeners that the bank crisis had occurred "because of undermined confidence on the part of the public." He acknowledged a rational basis for the loss of confidence — "We have had a bad banking situation" — while reassuring the public that, although some bankers "had shown themselves either incompetent or dishonest in their handling of the people's funds," the "vast majority of our banks" were not like that. But because people came "to assume that the acts of a comparative few had tainted them all," it then "became the Government's job to straighten out this situation and do it as quickly as possible. And that job is being performed." The President soberly said that probably not all banks were salvageable but promised a stronger banking system: all of the reopened banks would be sound and many others would be made sound by reorganization and then reopened. Moreover, the banks that would reopen in the next three days were not the only sound banks, merely those "already found to be sound.... It is necessary that the reopening of banks be extended over a period in order to permit the banks to make applications for the necessary loans, to obtain currency needed to meet their requirements and to enable the Government to make common sense checkups."⁶³ The banks would have plenty of currency, all backed by sound assets, but he urged people to put their money in the banks rather than take it out: "I can assure you that it is safer to keep your money in a reopened bank than under the mattress." Finally, Roosevelt concluded with a reminder that confidence was the foundation of banking:

After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people themselves. Confidence and courage are the essentials of success in carrying out our plan. You people must have faith; you must not be stampeded

by rumors or guesses. Let us unite in banishing fear. We have provided the machinery to restore our financial system, and it is up to you to support and make it work.⁶⁴

How Well Did the Bank Rescue Work?

An estimated 60 million people heard the fireside chat over the radio.⁶⁵ Their reaction the next day was rapturous. The new currency, additional stores of which had been loaded onto chartered planes, was scarcely even needed. Nor were the Treasury's anti-hoarding measures, which encouraged bankers to reject unusually large withdrawals.⁶⁶ People stood in line to put their money back in the banks. The New York Federal Reserve said net currency inflows were \$10 million. The reopening of banks in the clearinghouse cities on Tuesday, and then in other areas the next day, was equally successful. On Wednesday the stock markets, which had been voluntarily closed since the start of the holiday, reopened and posted record gains. By the end of March, over \$1.2 billion in currency, more than half of it in gold, had returned to banks.⁶⁷

By nearly all accounts, the reopening of the banks was a grand success and brought a quick end to the banking crisis. "Confidence Back As Banks Reopen," proclaimed *The Wall Street Journal* after the first day.⁶⁸ Commenting on the second day of bank openings, the Associated Press reported: "American trade and commerce showed marked improvement yesterday, stimulated by the new flood of currency and confidence now flowing through hundreds of banks in every Fed district."⁶⁹ "Full measure of success followed the reopening," wrote Ballantine.⁷⁰

By March 15, the initial round of reopenings was complete, as was the "survey" of the 7,000 national and state member banks. Of all the banks, national and state, roughly 50 percent (with 90 percent of total bank assets) had reopened; 45 percent were designated for conservatorship (25 percent could open with restrictions on withdrawals, 20 percent had to be reorganized first); and 5 percent (1,070 banks) were already in receivership and would be closed permanently. By the end of March, 80 percent of member banks and 67 percent of state nonmember banks had reopened, and more than two-thirds of the withdrawn currency had been redeposited. From April through December, other member banks reopened at a rate of about two per day; a trickle of state nonmember bank reopenings continued as well.⁷¹ Most of the permanently closed banks appear to have been state nonmember banks, partly because most banks were state banks. Of the 1,417 member banks that were still closed on March 16, only 303 ended up in receivership or liquidated. Most of the rest would reopen under new charters or after "capital corrections" such as RFC purchases of preferred stock.⁷² At the end of 1933, 14,440 commercial banks would be in operation, about 1,600 more than in April, with deposits of \$33 billion.⁷³ Only 512 member banks and 1,400 nonmember banks, with deposits of \$1.2 billion, would still be unlicensed.⁷⁴

bank assessors got some calls wrong and may have moved too slowly in reopening some banks. Wyatt said "... we found out later that a lot of the banks were in better condition than we thought they were, some of them were in a lot worse condition than we thought they were, some of the insolvent banks were opened and had to be restored to solvency, but everyone was doing the best they could."⁷⁵ Ballantine acknowledged that some of the reopened banks did require additional bolstering of bank capital, as from the RFC, but said very few required the more drastic step of calling in a conservator.⁷⁶ After the initial weeks of reopenings, the process became deliberately slow and cautious. Awalt wrote Woodin, "It seems to me fundamental that we should be very rigid, both in examination and requirements, from now on in order to keep these banks sound."⁷⁷ Many small communities were entirely without banks for months.⁷⁸ The president of Sears, Roebuck & Co. lamented "that very few banks in the small towns of the country are open ... Unless there is a speedy opening of the small country banks, there is apt to be a continuing paralysis of business in the rural sections."⁷⁹ These banks tended to be state-chartered, however, so it is unclear what more federal authorities might have done to help them, beyond the steps already taken of allowing state banks to have conservators and Federal Reserve borrowing privileges.

By April 12, 1933, when the original bank licensing process was largely finished, the crisis had long since passed but the banking sector still had problems. There were still 4,215 closed banks, with deposits of nearly \$4 billion.⁸⁰ A disproportionate number of them were small, rural, and state-chartered; such banks had accounted for 82 percent of the bank failures of the 1920s.⁸¹ Many of them would need additional capital, and many open banks were also undercapitalized. The next big response was the Banking Act, which Roosevelt signed into law on June 16, 1933. Among other provisions, the act sought to prevent future banking crises by establishing comprehensive federal deposit insurance. The higher bank capital required for the new deposit insurance provided banks with a strong incentive to turn to the RFC. RFC Chairman Jesse Jones emphasized this point. He told a gathering of the American Bankers' Association on September 5, "Half the banks represented in this room are insolvent; and those of you representing those banks know it better than anyone else." A month later he told a meeting of administration and financial officials that the banks needed \$1.2 billion to be deemed sufficiently solvent for deposit insurance. The RFC ultimately invested almost that exact amount, \$1.17 billion, in 6,105 banks.⁸² By the end of June 1934, the RFC owned 23.6 percent of the capital of insured banks.⁸³

Conclusion

This study supports the prevailing view of the March 1933 bank holiday as a roaring success. Leading explanations of that success, namely President Roosevelt's confidence-inspiring addresses to the public and the various provisions of the Emergency Banking Act, still appear important, but this paper also highlights the behind-the-scenes review of individual

banks by Treasury, Federal Reserve, and state officials. The cooperation, competence, and tirelessness of these officials, including several holdovers from President Hoover's administration, form a consistent theme in memoirs of that episode. The bank review was successful insofar as half the banks, with 90 percent of the nation's bank assets, reopened in a three-day period and stayed open. Although the bank review emerges as an inherently flawed mission, in view of the lack of timely and reliable data as well as the demand that the officials perform their review in the space of a few days, the public seems to have been unaware of these flaws. One could call it financial naivete, but the public had little way of knowing the impossibility of a comprehensive bank survey in such a short time; even publications like *The Wall Street Journal* and *Business Week* did not point it out. Public confidence was the cornerstone of the banking system's recovery, and the bank review seems to have played a key role in boosting confidence. From media sources and Roosevelt's fireside chat about the banks, the public was well aware that various government and Federal Reserve officials were reviewing the banks and seemed to regard the review as both necessary and feasible. Perhaps the public's credulity regarding the accuracy of the bank review is fitting, considering that the banking panic itself, by definition, was irrational. At any rate, the rising tide of depositor confidence helped ensure that the reopened banks stayed open and seemed to substantiate the bank review.

Lessons for today may not seem obvious, as the United States has not experienced bank runs since 1933, even during the worst of the financial crisis in 2008. But the 2008 crisis, with its rapidly plummeting market values of "toxic" mortgage-backed securities and collateralized debt obligations, created solvency problems at many financial institutions. Fears of other institutions' insolvency caused a credit crunch within the financial sector, as many banks and other institutions suddenly found it difficult to raise cash. The Federal Reserve quickly moved to increase bank reserves, but solvency remained dubious at many institutions. To test the health of 19 of the largest financial institutions receiving government assistance, Treasury Secretary Timothy Geithner in 2009 presided over "stress tests" designed to predict whether each bank could withstand adverse shocks. In an April 2010 speech Federal Reserve Chairman Ben Bernanke likened the stress tests to the 1933 bank review and said both had been helpful in restoring confidence in the banks.⁸⁴ The process in both cases was flawed: the "stress testers" of 2009 had much more time and data to draw on, but the problem of proper valuation of the assets was still vexing. Yet despite the technical difficulties of making quick, accurate determinations of financial strength for very large institutions or for a very large number of institutions, both episodes appeared to rally public confidence. Both episodes also show how restoring public confidence can turn the tide of a banking crisis even if, beneath the surface, system fundamentals remain questionable.

NOTES

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3. Raymond Moley, *The First New Deal* (New York: Harcourt, Brace and World, 1966), 139.
4. Broadus Mitchell, *The Depression Decade* (1947; reprint, Armonk, N.Y.: M.E. Sharpe, 1975), 135.
5. Arthur M. Schlesinger, Jr., *The Age of Roosevelt: The Coming of the New Deal* (Boston: Houghton Mifflin, 1958), 6, 8.
6. Paul Studenski and Herman Edward Krooss, *Financial History of the United States* (New York: McGraw-Hill, 1963), 384.
7. Susan Estabrook Kennedy, *The Banking Crisis of 1933* (Lexington: University Press of Kentucky, 1973), 181-189.
8. Elmus Wicker, *The Banking Panics of the Great Depression* (New York: Cambridge University Press, 1996), 149.
9. Wicker, 147.
10. Wicker, 145-146.
11. Barrie Wigmore, "Was the Bank Holiday of 1933 Caused by a Run on the Dollar?" *Journal of Economic History* 47, no. 3 (1987): 739-755.
12. Wigmore, 752.
13. William L. Silber, "Why Did FDR's Bank Holiday Succeed?" *Federal Reserve Bank of New York Economic Policy Review*, July 2009, 19-30, 19.
14. Silber, 20.
15. Moley, *After*, 122-123.
16. Moley, *First*, 138-151.
17. Moley, *After*, 59n, 72-78; Moley, *First*, 152.
18. Moley, *First*, 145-146.
19. William H. Grimes, "How the Capitol Met Bank Crisis," *Wall Street Journal* (WSJ), March 21, 1933, 6; Moley, *First*, 146-153; Arthur Ballantine, "When All the Banks Closed," *Harvard Business Review* 26, no. 2 (1948): 129-143, 138.
20. Moley, *First*, 151.
21. Reminiscences of Walter Wyatt, 1973, 11, Oral History Research Office, Columbia University.
22. Moley, *First*, 153.
23. Ballantine, 138; Wyatt, 12.
24. Wyatt, 12.
25. Grimes, "A Triumvirate Met the Crisis," WSJ, March 25, 1933, 8.
26. Moley, *First*, 159-160.
27. Quoted in Thomas H. Eliot, *Recollections of the New Deal: When the People Mattered* (Boston: Northeastern University Press, 1992), 33.

28. Wicker, 146.
29. Moley, *First*, 172.
30. Franklin D. Roosevelt, "Bank Holiday Proclamation – March 6, 1933," Intellectual Takeout, Internet: <http://www.intellectualtakeout.org/primary-sources/bank-holiday-proclamation-march-6-1933>, accessed June 30, 2010.
31. "Bank Holiday Proclaimed by Roosevelt," *The Miami Herald*, March 6, 1933, 1.
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33. Wyatt, 11-12.
34. Moley, *First*, 151.
35. Ballantine, 138.
36. Wyatt, 21-26.
37. Moley, *First*, 151; Moley, *After*, 151, 155.
38. Roosevelt, "The Banking Crisis (First Fireside Chat)," American Rhetoric, Internet: <http://www.americanrhetoric.com/speeches/fdrbankingcrisis.html>, accessed July 7, 2010.
39. Moley, *After*, 149.
40. Moley, *First*, 164.
41. Wyatt, 21-22; Moley, *After*, 152n.
42. Adam Cohen, *Nothing to Fear: FDR's Inner Circle and the Hundred Days That Created Modern America* (New York: Penguin, 2009), 78-79.
43. J.F.T. O'Connor, *The Banking Crisis and Recovery Under the Roosevelt Administration* (Chicago: Callaghan and Company, 1938), 19; Wicker, 146.
44. Francis Gloyd Awalt, "Recollections of the Banking Crisis in 1933," *Business History Review* 43, no. 3 (1969): 347-371, 369n.
45. *Biography of a Bank: The Story of Bank of America* (New York: Harper & Brothers, 1954), 372.
46. Moley, *After*, 163n.
47. Grimes, "How Reopening Was Mapped Out," *WSJ*, March 24, 1933, 8.
48. C.C. Colt & N.S. Keith, *28 Days: A History of the Banking Crisis* (New York: Greenberg, 1933), 72.
49. Moley, *First*, 190, 193.
50. Wicker, 146.
51. Colt and Keith, 80. There are at least 48 avenues of future research, as the reviews of the thousands of state banks (which were twice as numerous as the member banks) had to be carried out by state authorities. See Fuller, 474-479, 487-488 for dispatches from some states.
52. Moley, *First*, 177.
53. Moley, *First*, 166-167; Awalt, 360-361.
54. Grimes, "Reopening," 8.
55. O'Connor, 19.
56. Mitchell, 135.
57. Awalt, 360.
58. Moley, *First*, 190-191.
59. Wyatt, 94-95.
60. Fuller, 474-475.
- 56 61. Moley, *First*, 192.

62. Moley, *First*, 194.
63. Roosevelt, "Banking Crisis," np.
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65. Moley, *First*, 196.
66. "Economy Bill Faces Fight in Senate Today," *New York Herald Tribune*, March 13, 1933, 1.
67. Moley, *First*, 196-197.
68. March 14, 1933, 1.
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70. Ballantine, 140.
71. Kennedy, 187-188; O'Connor, 28.
72. O'Connor, 87.
73. Ballantine, 140.
74. Kennedy, 231; Wigmore, 750.
75. Wyatt, 97.
76. Ballantine, 140.
77. Kennedy, 189; Mitchell, 135.
78. Mitchell, 135.
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81. Kennedy, 205.
82. Moley, *First*, 198-199.
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84. Ben S. Bernanke, "Economic Policy: Lessons From History," speech, April 8, 2010, Internet: <http://www.federalreserve.gov/newsevents/speech/bernanke20100408a.htm>, accessed July 23, 2010.

