The American System

How FDR Reversed the 1933 Banking Crisis

During the bleak Winter months leading up to Franklin Roosevelt's inauguration as President of the United States in March 1933, the nation was sinking into despair, buoyed only by the hope that the new President would take decisive action. The most pressing problem was the accelerating collapse of the banking system, a system which had been rotted by insane speculation but was vitally necessary to the nation's economic health. It was actually a question whether Roosevelt would be inaugurated before all the banks were dead and gone.

As Roosevelt and his staff developed their plans to reorganize the banks, and thus preserve a mechanism for funneling Federal credit to bold new projects, President Hoover and his monetarist advisors were making the situation worse. They even insisted that Roosevelt share in their delusions and endorse their damaging policies. Their attempts to ensnare Roosevelt in joint declarations and premature commitments bedeviled him right up until the time he went to bed on the eve of his inauguration.

On Feb. 21, 1933, President-elect Roosevelt chose William H. Woodin to be his Secretary of the Treasury. Roosevelt made sure that Woodin received daily briefings from the Treasury Department, and personally conferred with him several times a day until they both arrived in Washington, D.C. on March 2. FDR's personal notes explain his thinking.

Roosevelt wrote of these conferences with Woodin that "we both concluded that the banking situation throughout the Nation was becoming so acute that only immediate and drastic measures could save the banks from having to close their own doors. Increasing lines of depositors were withdrawing their funds in gold or gold certificates. A proposal was made to give authority to the Treasury to deposit Government funds directly in any bank—but the Treasury did not have sufficient funds to deposit.

"On my arrival in Washington on the evening of March 2nd, Mr. Woodin told me of a suggestion that the President and I should join in a statement reiterating confidence in the fundamental soundness of American banks, and appealing to depositors to stop withdrawing funds. Many similar appeals and statements—all to the effect that nothing was wrong with the country—had been made during preceding years. Again, I felt that strong, positive, definite action should take the place of appeals."

It was traditional for the President-elect and his family to visit the outgoing President on the afternoon before the inauguration, but the visit was marred by Herbert Hoover's insistence that Roosevelt publicly approve his policies. If he did, this would mean the abandonment of 90% of the New Deal policies which Roosevelt had promised to the American people when he accepted the Democratic Party's nomination.

The Roosevelt family found themselves sitting on the sidelines while the President-elect was dragooned into an hour-long discussion on the banking crisis, to which Hoover had invited Secretary of the Treasury Ogden Mills and Federal Reserve governor Eugene Meyer, both of them devotees of monetarist policies. The outnumbered Roosevelt refused to be browbeaten into submission.

Roosevelt wrote about that day before his inauguration: "Messages had been coming in all day, reporting that some banks had closed their doors, that some Governors were declaring moratoria, and that more gold was being withdrawn. Later in the evening, by telephone, I told the President that while I was wholly agreeable to his closing all the banks by Proclamation, I could not, as a private citizen, join him in such a Proclamation."

"I told the President, however," continued Roosevelt, "that I believed that he had such authority under the Trading with the Enemy Act. I understood it to be the belief of the President that while some of his advisers had told him that he could do this, others had told him that it would not be legal. I had already asked Senator Thomas J. Walsh, who was to have become my Attorney General, to give me a report on such Presidential authority. As Senator Walsh had died suddenly, however, on March 2d, I had asked Mr. Homer S. Cummings to become Attorney General and had requested him for an opinion. On the evening of March 4th, I received the verbal opinion of the new Attorney General on which I based the Presidential Proclamation signed during the night of March 5th—6th, closing all banks."

During the exponentially collapsing conditions of January, February, and the first few days of March, Roosevelt could only develop, not implement, his plans for saving the banking system, since he was only a private citizen. He had ceased being Governor of New York on Jan. 2. Congressional leaders did ask his opinion on one occasion. "It had been suggested," wrote Roosevelt, "that a general sales tax be imposed to meet the great and growing deficit in the Treasury. For many years I had expressed my opposition to a general sales tax, on the ground that such a tax bore inevitably far more heavily on the poor than on the rich. This I told to the Democratic Congressional leaders. The proposed tax was not pressed."

On the eve of Roosevelt's inauguration, President Hoover telephoned twice, trying to secure Roosevelt's approval of an order restricting bank withdrawals and gold exports. Hoover was determined to keep the United States on the gold standard. He believed he could lure the British, who had abandoned the gold standard, back onto that standard if America held firm.

National Archives

A scene of panic on Wall Street in 1933, as depositors queue up to withdraw their money from the banks. Outgoing President Hoover wanted President-elect Roosevelt to join him in proclaiming that everything was just fine; FDR refused, and moved to take action immediately after his inauguration.

The British and European international investment banks were delighted with this belief, because it enabled them to drain gold out of the United States with the complicity of their Wall Street investment bank allies. As long as America was on the gold standard, it was a cash cow for the British Empire and for European banks in nations that were not on the gold standard. And with less and less gold, a United States on the gold standard would not have enough backing for credit to industry and agriculture to enable it to restart its economy.

Banking Holiday Proclaimed

"By Inauguration Day," wrote Roosevelt, "practically every bank in the country had either been closed or placed under restrictions by State Proclamations. Federal Reserve banks observed the State holidays, and were also closed on March 4th. All the leading exchanges ceased operations. It can be said that financial and banking business in the United States had stopped." President Roosevelt's first Presidential Proclamation, issued the day after his inauguration, called Congress into an extraordinary session which would be held on March 9. But his proclamation proclaiming a bank holiday, although issued on March 6, had actually been the first proclamation drafted.

The bank holiday was to continue until March 9, when the extraordinary session of Congress would be held. On that day, Congress passed the Emergency Banking Act, which extended the bank holiday in order to give the government time to reorganize the banking system. The Act provided for massive influxes of credit into the system by authorizing banks to issue and sell their preferred stock to the Reconstruction Finance Corp. This permitted them to obtain funds without creating claims superior to the claims of their depositors. The legislation also made it possible for any member bank to meet all demands for currency, so long as it had sound assets, because it could borrow against these assets from the Federal Reserve banks.

"Between March 6th and March 9th," wrote Roosevelt, "we were busy drafting this legislation in conference with the Congressional leaders, and also devoting ourselves to devising arrangements to permit the banks to meet certain essential payments during the banking holiday.

"The Secretary of the Treasury issued a series of regulations, and distributed them through the Federal Reserve banks, permitting specific types of banking transactions." Banks were also permitted to perform certain functions required to provide the community with food, medicine and other necessities of life, to relieve distress, and to pay usual salaries and wages; and banks were authorized to accept special trust deposits withdrawable on demand—but all of these regulations prohibited any bank from paying out gold or gold certificates or permitting any withdrawals of currency for hoarding purposes."

Restoration of Confidence

At the end of the bank holiday, the banks in the 12 Federal Reserve cities were opened, and on the following day, the sound banks in around 250 cities opened their doors. In succeeding days, sound banks in smaller cities and towns opened. Roosevelt wrote that, "By this time, there had been such restoration of confidence, that as soon as the banks were reopened, a large volume of currency was re-deposited. . . . There was also a rapid return of gold and gold certificates to the Reserve banks and to the Treasury. By the middle of April, deposits in the reporting member banks had increased by $1 billion, and before the end of June, by more than $2 billion."

A reorganized banking system with increased deposits and the ability to call upon Federal credit was an essential precondition for America's ability to assert her national sovereignty, in order to provide for the general welfare. As President Roosevelt wrote, "The New Deal was fundamentally intended as a modern expression of ideals set forth one hundred and fifty years ago in the Preamble of the Constitution of the United States—'a more perfect union, justice, domestic tranquility, the common defense, the general welfare and the blessings of liberty to ourselves and our posterity.' But we were not to be content with merely hoping for these ideals. We were to use the instrumentalities and powers of Government actively to fight for them."