CAMBRIDGE UNIVERSITY PRESS

Was the Bank Holiday of 1933 Caused by a Run on the Dollar?

Author(s): Barrie A. Wigmore

Source: *The Journal of Economic History*, Sep., 1987, Vol. 47, No. 3 (Sep., 1987), pp. 739-755

Published by: Cambridge University Press on behalf of the Economic History Association

Stable URL: https://www.jstor.org/stable/2121338

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at https://about.jstor.org/terms

Cambridge University Press and are collaborating with JSTOR to digitize, preserve and extend access to *The Journal of Economic History*

This content downloaded from 149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

Was the Bank Holiday of 1933 Caused by a Run on the Dollar?

BARRIE A. WIGMORE

International, rather than domestic, causes of both the Bank Holiday of 1933 and the calm in the banking system that followed are emphasized here. New information on gold losses by the New York Federal Reserve, rather than domestic currency hoarding, serve to explain the Bank Holiday's specific timing. Expectations that Roosevelt would devalue the dollar stimulated much of the gold loss. I also argue that Roosevelt's restrictions on gold holdings and foreign exchange dealings and his devaluation of the dollar by 60 percent were more important to the stability of the banking system after the Bank Holiday than was deposit insurance.

Two major riddles still exist about the Bank Holiday of March 1933. Why did it occur when it did, and why was it followed by such calm in the banking system? Traditional explanations of the timing of the Bank Holiday focus almost exclusively on public hoarding of currency due to domestic factors such as deterioration of bank assets, lack of Federal Reserve action, and release by the Reconstruction Finance Corporation (RFC) of the names of banks receiving its help. Here I shift the emphasis to foreign and domestic demands for gold stimulated by fears of a bank holiday and speculation that President Roosevelt would devalue the dollar. New data on the daily gold position of the Federal Reserve Bank of New York indicate that these fears led to a now familiar effect—a run on the dollar—which exhausted the gold reserves of the Federal Reserve Bank of New York, thereby accounting for the specific timing of the Bank Holiday. This is not meant to be a mono-causal explanation of the Bank Holiday, but rather an effort to establish a better balance between domestic and international causes. Two somewhat independent courses of events were at work in the domestic and international spheres. Without international influences the Bank Holiday would have been less comprehensive and the remedies would have been quite different.

Traditional explanations of the calm which occurred when the banking system reopened after the Bank Holiday also focus almost exclusively on domestic measures, such as the promise of federal deposit

Journal of Economic History, Vol. XLVII, No. 3 (Sept. 1987). © The Economic History Association. All rights reserved. ISSN 0022-0507.

The author is a Partner of Goldman, Sachs & Co., 85 Broad Street, New York, NY 10004. He gratefully acknowledges the advice of Peter Temin in structuring the argument of this article and the assistance of Carl W. Backlund, archivist at the Federal Reserve Bank of New York, who unearthed the daily gold data in Table 1.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

insurance, the new powers of the RFC, federal inspection of banks, the weeding out of weak banks, the cathartic effect of the Bank Holiday, and President Roosevelt's personal effect on confidence. Again, I argue there was an important international aspect to the resulting calm. When Roosevelt embargoed gold and allowed the dollar to float, he insulated the domestic banking system from further runs on its gold reserves. Speculation against the dollar was halted by rigid foreign exchange controls, and the incentive to speculate against the dollar was removed when he devalued the dollar by almost 60 percent between April and July 1933. These measures affecting gold and foreign exchange were the principal reasons for the stability in the banking system when it reopened.

THE CAUSES OF THE BANK HOLIDAY

The Federal Reserve Board emphasized domestic causes of the Bank Holiday in its annual report for 1933 which attributed the crisis to ". . . a loss of confidence in the solvency of banks [due to] depreciation in bank assets consequent upon the drop in prices of all classes of property caused by the depression."[1] Milton Friedman and Anna Schwartz also blame the crisis on domestic factors in *A Monetary History of the United States, 1867–1960*, but they emphasize the Federal Reserve's failure to make substantial open-market purchases of U.S. treasury securities as the cause of the general decline in bank assets and the squeeze on bank liquidity. They attribute the Federal Reserve's failure to panic. "The Federal Reserve itself participated in the general atmosphere of panic. Once the panic started it fed on itself."[2] Other scholars of the Bank Holiday, such as Susan Estabrook Kennedy in *The Banking Crisis of 1933*, Elmus R. Wicker in *Federal Reserve Monetary Policy, 1917–1933*, and Charles P. Kindleberger in *The World in Depression, 1929–1939* also emphasize domestic causes such as bad publicity for the banks in the Senate stock market investigation, the RFC's release of the names of banks accepting its help, the budget deficit, inflationary proposals, and the lack of cooperation between Presidents Hoover and Roosevelt.[3] General historians of the period, such as Arthur M. Schlesinger, Jr. and Frank Friedel, tend to attribute the Bank Holiday to the progressive deterioration of the

[1] *Twentieth Annual Report of the Federal Reserve Board Covering Operations for the Year 1933* (Washington, D.C.,, 1934), p. 8 [hereafter *Federal Reserve Annual Report 1933*].

[2] Milton Friedman and Anna J. Schwartz, *Monetary History of the United States, 1867–1960* (Princeton, 1963), p. 332.

[3] Susan Estabrook Kennedy, *The Banking Crisis of 1933* (Louisville, 1973), p. 224; Elmus R. Wicker, *Federal Reserve Monetary Policy, 1917–1933* (New York, 1966), pp. 194–95; Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley, 1973), pp. 197–98.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

banking system throughout the Depression, although they both give a greater role to fears of a devaluation than do economic historians.[4]

Influential financial observers at the time rooted the crisis in the Federal Reserve's inability to meet gold demand, although they did not differentiate sharply between domestic and foreign demand. Since the dollar was fully convertible into gold, conversions by either domestic or foreign depositors were hard to distinguish. James P. Warburg described the crisis as follows: "When the run on the Treasury via the banks for gold got going, gold payments had to be suspended because there wasn't enough gold to pay off everybody."[5] Similarly, Walter Wyatt, who was counsel to the Federal Reserve Board, said, "This run on gold was so desperate that it looked like something had to be done in New York, to stop this run on gold."[6] President Hoover appreciated the international character of the crisis as Friedman and Schwartz have pointed out: "A few days before the inauguration, the Treasury and the Federal Reserve Board pressed him to declare a nationwide bank holiday, but he proposed instead an executive order controlling the foreign exchanges and gold withdrawals if Roosevelt would approve."[7] Kennedy has pointed out that Senator David Reed of Pennsylvania, who was financially very astute, suggested the same remedies in late February, and apparently Treasury Secretary Mills, Treasury Undersecretary Ballantine, and Federal Reserve Governor Adolph Miller had all concurred.[8]

The run on the dollar was quite evident on foreign exchange markets at the time. President Roosevelt cited in his proclamation of the Emergency Bank Act: ". . . extensive speculation activity abroad in foreign exchange [which] resulted in severe drains on the nation's stocks of gold . . ." The newspapers indicated that selling against the dollar was very great by both Americans and Europeans in the foreign exchange market. The Bank of England estimated that outright speculative sales of dollars spot and forward were $150 million, but that there were dollar sales that could have reached several hundred million dollars related to anticipated trade receipts and to deposits in Germany restricted under "standstill agreements."[9] In the first week of March speculative activity against the dollar became intense and the capital movements large. The *Wall Street Journal* reported that ". . . a wild market developed with wide fluctuations." On Friday, March 3, sterling

[4] Arthur M. Schlesinger, Jr., *The Age of Roosevelt, The Crisis of the Old Order* (Boston, 1957), pp. 474–75; Frank Friedel, *Franklin D. Roosevelt Launching the New Deal* (Boston, 1973), p. 175.

[5] Columbia University Library, Oral History Archives, "Reminiscences of James P. Warburg," pp. 63–64.

[6] Columbia University Library, Oral History Archives, "Reminiscences of Walter Wyatt," p. 3.

[7] Friedman and Schwartz, *Monetary History of the United States*, p. 331.

[8] Kennedy, *The Banking Crisis of 1933*, pp. 144–45.

[9] Bank of England archives, C43/76, folio 23.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

spot and forward hit new highs since the September 1931 devaluation of \$3.47 and \$3.54, respectively—up from \$3.28 in December—and records were set by Dutch guilders, French francs, Swiss francs, and Belgian belgas. Substantial shifts of funds to Canada were reported along with heavy demand for new accounts.[10] There were also wholesale portfolio movements out of the United States based on expectations of devaluation such as that of which Morgan & Cie informed its parent, J. P. Morgan & Co.: "You will have noticed that many of our clients are disposing of their dollar securities and currency and most people believe that it is merely a matter of time before the dollar goes off the gold standard."[11]

On March 3, the dollar foreign exchange market completely collapsed. Its locus was in Paris, principally because the U.K. Exchange Equalization Fund was active there selling dollars and the Guaranty Trust was buying them on an arbitrage basis for the Bank of France to keep the franc from rising too high.[12] By March 3, the operation had become too large for the Guaranty Trust to manage on its own. The Guaranty Trust proposed that the Federal Reserve Bank of New York help organize ten banks to share a commitment of \$150 million, but it got no help and no other banks would participate. Thereupon, the Guaranty Trust quit the market, and the United States was left with a floating dollar in Paris.[13]

The run on the dollar was related to publicity about devaluation in the weeks preceding the Bank Holiday. The crisis in the farm states, which was behind much of the pressure for devaluation, had become acute in January 1933 as an index of 27 farm commodities reached a new low equal to 50 percent of pre-war prices.[14] Farmers were forcibly halting tax and mortgage foreclosure sales with violence and threats against courts, lawyers, and auctioneers. The "Farmers' Holiday" movement was growing rapidly. State legislatures that were controlled by farmers responded by passing moratoria on farm foreclosures, eliminating taxes or providing deferrals and installment payments, reducing legal interest rates, reducing or replacing property taxes with sales taxes, and readjusting debts to creditors' ability to pay. These efforts reflected the same pressures as plans to devalue the dollar to raise farm prices. Senator Tom Connally (Democrat-Texas) tried in January 1933 to include devaluation of the dollar as part of the Glass-Steagall bill, and

[10] *Wall Street Journal*, Mar. 1, 1933, p. 5; Mar. 2, 1933, p. 1; Mar. 3, 1933, p. 5; Mar. 4, 1933, pp. 1, 5.

[11] Bank of England archives, G1/139, folio 3.

[12] The Guaranty Trust was conducting an arbitrage activity in cooperation with the Bank of France, borrowing French francs from the Bank of France, using them to buy dollars offered in Paris for two day delivery, borrowing from the Federal Reserve Bank of New York to buy gold immediately, and selling the gold to the Bank of France to liquidate the original franc borrowing.

[13] George L. Harrison Papers, Columbia University Library, Binder 50, vol. 3, pp. 93–102.

[14] *The Commercial & Financial Chronicle*, Feb. 4, 1933, pp. 725–26.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

although the amendment was voted down 56 to 18, *The New York Times* referred to the vote as follows:

> The whole question of currency inflation, which has been stalking the Capitol for weeks, and so far has been held behind cloak-room doors, boiled out onto the floor of the Senate today and precipitated the most serious debate which has held the attention of that body in a long time.[15]

In February, the Coinage Committee of the House of Representatives approved a bill adding $250 million in silver certificates to currency in circulation over five years by a vote of 8 to 3, reversing a prior 1 to 9 vote. Purchases of silver were to start at 40 cents per ounce and rise to 75 cents, although the current silver market was only 25 cents per ounce. In the meantime, the Committee for the Nation, which included Henry Wallace, the new Secretary of Agriculture, on its executive committee, was circulating a report among legislators explicitly recommending dollar devaluation.

President-elect Roosevelt was publicly sympathetic to dollar devaluation. As early as December 18, 1932, Roosevelt held a meeting in Albany to discuss devaluation.[16] In January, at his Georgia retreat he counseled amid considerable publicity with advocates of devaluation, particularly Professor George F. Warren of Cornell University, an influential confidant who favored devaluation and a managed exchange rate. In the same month, Roosevelt told an emissary of William Randolph Hearst, "If the fall in the price of commodities cannot be checked, we may be forced to an inflation of our currency. This may take the form of using silver as a base, or decreasing the amount of gold in the dollar. I have not decided how this inflation can be best and most safely accomplished."[17] Rexford Tugwell had a similar conversation with James H. Rand, Jr. of the Remington Rand Corporation.[18]

In February concern that the dollar would be devalued resulted in extensive public exhortation by financial figures to President-elect Roosevelt that he side against such a policy. Prominent speeches along these lines were made by President Hoover; Arthur A. Ballantine, Undersecretary of the Treasury; David F. Houston, President Wilson's Secretary of the Treasury; Professor E. W. Kemmerer; Melvin Traylor, President of the First National Bank of Chicago; Winthrop W. Aldrich, Chairman of the Chase National Bank; Francis H. Sisson, President of the American Bankers Association; and many lesser financial figures. Similar articles appeared during February in the *Guaranty Survey*, in Cleveland Trust Company's *Business Bulletin*, and in the monthly

[15] *The Commercial & Financial Chronicle*, Jan. 28, 1933, p. 531.

[16] Lawrence Sullivan, *Prelude to Panic The Story of the Bank Holiday* (Washington, D.C., 1936), p. 68.

[17] Schlesinger, *The Crisis of the Old Order*, p. 453.

[18] Friedel, *Franklin D. Roosevelt*, pp. 184–85.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

review of England's Midland Bank.[19] The editor of *The Wall Street Journal* complained of the amount of mail he was receiving about devaluation.[20] London's *Financial Times* carried headlines on March 1 about U.S. dollar devaluation rumors and the next day carried an editorial on the topic which even foresaw the potential for legislation abrogating U.S. gold contracts in bonds.[21]

The public outcry against devaluation occurred because many important financial market participants had become convinced that devaluation was likely. In mid-January 1933 the Federal Reserve Bank of New York circulated a confidential memorandum on the prospective effects of devaluation.[22] Despite protestations to the contrary, insiders knew that Senator Carter Glass refused to become Secretary of the Treasury on February 19 because he failed to get a commitment from Roosevelt not to devalue the dollar. The future Treasury Secretary, William Woodin, bluntly told Glass's intermediary, Governor Harrison of the New York Federal Reserve Bank, that Roosevelt would not make the commitment. After discussion between Roosevelt and Woodin, Woodin told Harrison that Glass could not make such a commitment either, even if he accepted the Treasury appointment.[23] President Hoover in his memoirs cited an unnamed member of the Federal Reserve's Advisory Council who was convinced after its February 21 meeting with President-elect Roosevelt that he would devalue the dollar. Within Hoover's own administration, Arthur Ballantine, Undersecretary of the Treasury, and Ogden Mills, Secretary of the Treasury, had worked out a plan to devalue gold.[24] Devaluation of the dollar also made increasing sense as statements by leading English financial figures, including Joseph Chamberlain, Chancellor of the Exchequer, made clear that England would not revalue sterling or give up its system of tariffs and trade preferences which were the main U.S. goals at the forthcoming International Monetary Conference. If the United Kingdom would not go back on the gold standard at its old exchange rate, the principal counter available to the United States was competitive devaluation.

Granted that there was a run on the dollar, can it explain the timing of the Bank Holiday? Foreign deposit withdrawals and demand for gold were partly related to the surge in state bank holidays, and Federal Reserve System gold holdings reported on a weekly basis only declined $563 million compared with the $1.8 billion increase in public currency.

[19] *The Commercial & Financial Chronicle*, Feb. 4, 1933; ibid., Feb. 11, 1933; *Wall Street Journal*, Mar. 2, 1933, p. 1.

[20] Ibid., Mar. 3, 1933, p. 5.

[21] *Financial Times*, Mar. 1, 1933, p. 8; Mar. 2, 1933, p. 4.

[22] Sullivan, *Prelude to Panic*, p. 46.

[23] Harrison Papers, Binder 46, memo describing events on Feb. 17, 1933 and Feb. 19, 1933.

[24] *New York Herald Tribune*, May 5, 1958, p. 18.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

TABLE 1
GOLD DATA FOR THE FEDERAL RESERVE BANK OF NEW YORK, 1933
($ millions)

	Total Gold Reserves	Joint Custody Account for U.S. Treasury	Total Gold	Earmarked Gold
February 1	$965	$531	$1,496	$ 97
March 1	711	496	1,207	298
March 2	n.a.	n.a.	n.a.	n.a.
March 3	n.a.	n.a.	n.a.	n.a.
March 4	381	380	761	391
March 6	413	380	793	391
March 7	417	380	797	391
March 8	698	n.a.	n.a.	n.a.
March 9	n.a.	n.a.	n.a.	n.a.
March 10	n.a.	n.a.	n.a.	n.a.
March 11	725	380	1,105	391
March 13	726	380	1,106	391
March 14	706	380	1,086	391
March 15	762	380	1,142	391
March 16	737	380	1,117	391
March 17	694	380	1,074	391
March 18	761	380	1,141	382
March 20	810	380	1,190	382
March 21	815	380	1,195	382
March 22	818	380	1,198	382
March 23	816	380	1,196	382
March 24	823	380	1,203	381
March 25	826	380	1,206	372
March 27	854	380	1,234	372
March 28	871	380	1,251	372
March 29	865	380	1,245	371
March 30	858	380	1,238	371
March 31	891	380	1,271	371

n.a. = not available.
Source: Federal Reserve Bank of New York, "Statement of Condition," Federal Reserve Bank of New York archives.

An accurate analysis must place the run on the dollar into perspective with domestic currency withdrawals.

New information from the archives of the Federal Reserve Bank of New York on daily rather than weekly gold holdings (Table 1) helps to substantiate that the Federal Reserve Bank of New York's gold was exhausted by the run on the dollar. While the Federal Reserve System in total lost only 18 percent, or $571 million, of its gold reserves between February 1 and March 8, reported on a weekly basis (Table 2), the Federal Reserve Bank of New York alone lost 61 percent, or $584 million, of its gold reserves between February 1 and March 4, reported on a daily basis. By March 4 it was down to $381 million in gold reserves. Federal Reserve Bank of New York gold holdings bounced

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

TABLE 2
GOLD RESERVES OF THE FEDERAL RESERVE BANKS, 1933
($ millions)

	Total	Boston	N.Y.	Phila.	Cleve.	Rich.	Atl.	Chi.	St. Louis	Minn.	K.C.	Dallas	S.F.
Feb. 1	$3,255	$248	$965	$210	$244	$96	$81	$854	$124	$60	$104	$34	$236
8	3,247	252	917	205	242	108	93	847	126	61	108	33	254
15	3,200	250	791	202	248	106	95	896	129	65	110	37	271
21	3,118	243	744	189	241	95	84	933	125	69	109	38	248
Mar. 1	2,892	201	711	143	270	119	75	793	142	64	113	58	203
8	2,684	160	698	148	226	128	95	602	130	68	125	82	223
15	3,011	195	762	150	257	173	111	658	156	78	141	79	251
22	3,192	195	818	163	316	170	115	811	151	72	128	55	200
29	3,237	203	865	173	291	166	108	878	140	72	116	45	182
Apr. 5	3,279	207	914	197	283	167	111	836	138	74	112	40	199
12	3,315	214	934	197	275	168	107	853	140	73	113	39	203
19	3,366	221	1,004	197	266	168	105	845	144	69	112	35	198
26	3,396	223	1,016	201	257	170	104	862	144	68	116	33	203
May 3	3,436	242	922	216	257	176	108	917	151	73	122	43	209

Source: Federal Reserve Board, "Condition of Federal Reserve Banks," Federal Reserve Bank of New York archives.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

back $317 million by March 8, after the Bank Holiday was declared, underscoring the importance of daily data.

The daily data in Table 1 also show a decline of $151 million in the Federal Reserve Bank of New York's U.S. Treasury gold custody account, or a total loss of $735 million when combined with the New York bank's losses of $584 million.[25] This contrasts with apparent gold losses of only $571 million in the total Federal Reserve System if only weekly data are used.

But what about the other Federal Reserve banks? In principle the Federal Reserve System's total gold reserves of approximately $3 billion were available to satisfy the demands for gold. But cooperation within the Federal Reserve System broke down under the pressure of the crisis. The Federal Reserve Bank of Chicago refused to buy or rediscount $100 million of government securities from the Federal Reserve Bank of New York to bolster its reserves on March 3, and the next day the Federal Reserve Board refused ". . . to invoke its authority to require inter-district rediscounting at that time."[26] Walter Wyatt, counsel to the Federal Reserve Board, subsequently described the vehement refusal of the Federal Reserve Bank of Chicago to assist its New York counterpart as follows: ". . . some of the member banks of Chicago threatened to pull all their deposits out of the Federal Reserve Bank the next morning [March 4], pull the gold out. They didn't want the gold transferred to the New York district."[27] Not until March 7 did the Federal Reserve Board force inter-district rediscounting of $245 million from five other district banks.[28] The spirit in Chicago appears to have been at work in some other Federal Reserve districts: the Richmond, St. Louis, Minneapolis, Kansas City, and Dallas Federal Reserve banks all increased their gold holdings between February 15 and March 8 (see Table 2). The Federal Reserve Bank of New York had to face the demands for gold on its own.

The timing of the Bank Holiday becomes much clearer knowing the role of the Federal Reserve Bank of New York in meeting the demand for gold. The Federal Reserve Bank of New York was down to $381 million of reserves by the end of business on March 3, against which there were foreign deposits of over $600 million in New York City banks.[29] The Bank of England alone had over $240 million of dollar assets which it was anxious to reduce because of exchange rate

[25] I do not know the purpose of the gold custody account.

[26] Secretary's minutes of a special meeting of the Executive Committee of the Federal Reserve Bank of New York, Mar. 7, 1933.

[27] Columbia University Library, Oral History Archives, "Reminiscences of Walter Wyatt," pp. 3–4.

[28] Secretary's minutes of a special meeting of the Board of Directors of the Federal Reserve Bank of New York, Mar. 9, 1933.

[29] Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics* (Washington, D.C., 1943), p. 575 [hereafter *Banking and Monetary Statistics*].

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

exposure.[30] Domestic depositors could also make virtually unlimited demands for gold.

The demand for gold dominated meetings of the Federal Reserve Bank of New York's board of directors during this crisis. Minutes of a Federal Reserve Bank of New York board meeting on March 3 note officers saying ". . . we could not pay out gold and currency much longer at the rate of the past few days," and George W. Davison, Chairman of the Clearing House Association and President of Central Hanover Bank & Trust, saying ". . . continued payment would be the courageous and probably the legal thing to do but that in the face of today's figures we already are off the gold standard whether the fact is legally recorded or not." The directors resolved that if neither legislation nor a bank holiday could be achieved they would suspend gold payments.[31] On Sunday, March 5, Governor Harrison was quizzed by Senator Carter Glass as to ". . . why we had not continued to use our reserves—that was what reserves were meant for and we might well have continued paying without any holiday." To which Harrison responded:

> . . . that it would have been impossible, for had we opened for business on Saturday and certainly had we opened on Monday as well, we might conceivably have lost every dollar of our reserve in the New York bank; the momentum of currency and gold withdrawals had reached such a pace that it would have been impossible to go on without some sort of a holiday or embargo, each of which was a governmental decision.[32]

Although the quotation cites both currency and gold withdrawals as causes of the holiday, it was only the gold resources of the bank that were exhausted. The Federal Reserve Bank of New York was still able to issue $9 billion of currency when the banks closed.[33] Professionals within the Federal Reserve System articulated this clearly in the crisis meetings during the Bank Holiday. The New York Clearing House Association did have scrip printed which indicates that some people thought the ability to issue currency was exhausted, but Secretary of the Treasury William Woodin declared that there would be no scrip issued, and the matter was simply resolved by issuing Federal Reserve bank notes.

The depleted gold reserves of the Federal Reserve Bank of New York also contrasted with the massive liquid assets of the New York Clearing House banks. When the Bank Holiday was declared they still held $2.2 billion of U.S. treasury securities that could be discounted at the

[30] Bank of England archives, C43/76, folio 3; Harrison Papers, Binder 46, memo Feb. 16, 1933.

[31] Harrison Papers, Binder 50, vol. 3, pp. 103, 95, 96, 101.

[32] Harrison Papers, Binder 46, memo Mar. 12, 1933.

[33] H. V. Roelse and Deputy Governor Burgess memos of Mar. 6, 1933 to Governor Harrison, Federal Reserve Bank of New York archives.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

Federal Reserve, $1.1 billion of other investments, $0.4 billion of call loans, $1.3 billion of other loans secured by securities, and $0.7 billion of cash and Federal Reserve balances. This total of $5.7 billion of highly liquid assets provided a substantial reserve against the banks' liabilities of $5.8 billion of demand deposits and Federal Reserve borrowings. When the Bank Holiday occurred, these liquid assets had only been reduced 10 percent, or $600 million, since their peak on February 1, 1933. The New York City banks even increased their loans on securities to nonbrokers by $68 million in the period.[34] The banks' position justified their statement on March 3 to Governor Lehman that ". . . they would rather stay open and take their beating than ask for a holiday." As George W. Davison of Central Hanover Bank & Trust described the situation to the Federal Reserve Bank of New York's directors that afternoon: "The fine condition of most of the banks in New York City makes it wholly wrong to pin the request for a holiday on them."[35]

The request for a bank holiday in New York ultimately came from both the Clearing House banks and the Federal Reserve Bank of New York, but this was more due to politics than the needs of the Clearing House banks. George Davison, acting in his capacity as the Chairman of the New York City Clearing Association, asked New York Superintendent of Banks Thomas Broderick, to request a bank holiday on his own initiative ". . . and thereby save the prestige of the Clearing House banks and the Federal Reserve Bank of New York."[36] But Broderick refused, insisting that a bank holiday could only follow a joint request from the Clearing House banks and the Federal Reserve Bank of New York.[37] Governor Harrison had his own political problem with the Federal Reserve Board in Washington. According to Walter Wyatt, counsel to the Federal Reserve Board, Eugene Meyer, Chairman of the Federal Reserve Board ". . . didn't want the Federal Reserve System to be blamed—he didn't want the newspapers to say that the Federal Reserve System had asked the governors of these states to close the banks . . ."[38] Meyer urged the Federal Reserve banks not to ask for a holiday, but Governor Harrison ran out of options and joined in the request to Governor Lehman to close the New York banks.

Although the banking system was under pressure from a number of directions in early 1933, it appears that in the end it was the Federal Reserve Bank of New York that sought the bank holiday in New York state to close down the system, and that it did so because it would run out of gold.

[34] *Banking and Monetary Statistics*, p. 178.

[35] Harrison Papers, Binder 50, vol. 3, memo Mar. 3, 1933, Board of Directors meeting, p. 100.

[36] Columbia University Library, The Herbert H. Lehman Papers, Special Subject Files, Bank Holiday of 1933, Joseph A. Broderick memo of Dec. 1935, pp. 15–16.

[37] Ibid., pp. 15–16.

[38] "Reminiscences of Walter Wyatt," p. 4.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

THE RECOVERY OF THE BANKING SYSTEM

President Roosevelt and the new Congress quickly implemented many remedies to deal with the Bank Holiday and the weak condition of the banking system. Federal reviews of all banks were carried out to decide which ones could safely reopen. By Monday, March 13, all of the New York City Clearing Association banks were reopened, except the Harriman Bank & Trust which had been under criminal investigation since April 1932. By May 3, reopened banks numbered 5,478, representing $26 billion in deposits. By the end of December, only $1.2 billion in deposits were still restricted compared with total commercial bank deposits on December 31, 1932, of $36 billion.[39] Further assurances to depositors were provided by authorizing the RFC in invest equity in banks without taking collateral and by the promise of a federal deposit insurance scheme of up to $2,500 per depositor. President Roosevelt chose the banking system as the subject of his first fireside chat and gave assurance of the government's support for the system. Public disclosure of RFC loans to banks was also stopped. On the international front, private gold transactions were immediately forbidden and foreign exchange dealings were placed under controls which limited them to bona fide business transactions.

In the two months following the Bank Holiday momentous long-term changes in domestic gold ownership and the value of the dollar occurred. On April 5, the President required by executive order that all individuals surrender their gold to the Federal Reserve. After April 18, the dollar was not convertible into gold except by central banks and it was allowed to float against all other currencies. The process of devaluing the dollar began at this point, although it was not formalized until May 12, when the President signed the Thomas Amendment to the Agricultural Adjustment Act authorizing devaluation. By the end of July the dollar had been devalued almost 60 percent, although a new gold value for the dollar was not formally set until February 1, 1934, at $35.00 per ounce versus $20.67 previously.

The combination of these domestic and international measures had a remarkable calming effect on the U.S. banking system in the months immediately after the Bank Holiday. Currency in public hands declined from $7.5 billion on March 11 to $6.0 billion by the end of April, and demand deposits in weekly reporting member banks surged from $9.5 billion on March 8 to $11 billion by May 17.[40] Member borrowings from the Federal Reserve dropped from $1.4 billion on March 8 to $500 million by the end of March.[41] Gold holdings of the Federal Reserve System recovered to over $3.4 billion in May which equaled pre-crisis

[39] *Federal Reserve Annual Report 1933*, p. 23; *Banking and Monetary Statistics*, p. 17.
[40] Ibid., p. 146.
[41] Ibid., p. 387.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

holdings (see Table 2), and gold at the Federal Reserve Bank of New York recovered to $1.271 billion by the end of March (see Table 1). During the balance of 1933, only 154 banks with $126 million in deposits closed, which was the lowest since 1929 and only 15.6 percent of the annual rate of closings from 1930 to 1932.[42]

Most scholars have emphasized domestic measures to explain the success in restoring calm to the banking system after the Bank Holiday. Friedman and Schwartz did not address the immediate stability when the banks reopened, but were most explicit that the longer-run stability was due to federal deposit insurance:

> Major changes in both the banking structure and the monetary system resulted from the Great Contraction. In banking, the major change was the enactment of federal deposit insurance in 1934. This probably has succeeded, where the Federal Reserve Act failed, in rendering it impossible for a loss of public confidence in some banks to produce a widespread banking panic involving severe downward pressure on the stock of money; if so it is of the greatest importance for the subsequent monetary history of the United States.[43]

Some scholars have likened the Bank Holiday to an emotional catharsis which once experienced relieved the panic. "The dramatic gesture of a national banking holiday broke the back of the panic," according to Kennedy.[44] Charles Beard and George Smith concluded ". . . the sudden nationwide holiday performed the same function for the bank panic as may a sharp slap in the face for a person gripped by unreasoning hysteria. By arresting all banking functions, the government removed the sources on which fear might thrive, and it gave people time to collect themselves."[45]

Other scholars have ascribed the reopening calm to the President's personal charm and air of confidence. Studenski and Krooss said: "The handling of the banking crisis was one of the brightest pages in the New Deal's history. Confidence was restored by the President's air of optimism."[46] Raymond Moley expressed surprise at ". . . the almost miraculous rise in public confidence which followed the inaugural."[47] E. A. Goldenweiser thought it was crucial that ". . . the new President had infused new hope into the country and assured the Public that the government stood behind the banks."[48]

Most of the scholars mentioned above have also emphasized the

[42] *Federal Reserve Bulletin*, Sept. 1937, pp. 909–10.

[43] Friedman and Schwartz, *Monetary History of the United States*, p. 11.

[44] Kennedy, *The Banking Crisis of 1933*, p. 230.

[45] Charles A. Beard and George H. A. Smith, *The Old Deal and The New* (New York, 1941), pp. 78–81.

[46] Paul Studenski and Herman E. Krooss, *Financial History of the United States* (2nd edn., New York, 1963), p. 384.

[47] Raymond Moley, *The First New Deal* (New York, 1966), p. 155.

[48] E. A. Goldenweiser, *American Monetary Policy* (New York, 1951), pp. 169–70.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

various other steps taken by the administration as causes of the calm aftermath, such as the review procedure for reopening banks, RFC power to invest in preferred stock or capital notes of banks, and the end of RFC publicity about banks it assisted. But even cumulatively it is difficult to see how these measures alone could have been sufficient to create the dramatic difference in banking conditions which occurred. Federal deposit insurance did not become effective until the beginning of 1934, nine months after the crisis, and it only covered deposits up to $2,500. These limits had slight impact on large depositors who had 823,000 uninsured accounts accounting for $25 billion, or two-thirds, of all bank deposits in insured banks.[49]

The federal review procedure for reopening banks also had too many weaknesses to create much confidence, given the number of banks reopened, the speed with which they reopened, and the lack of current financial information on them. There were no standards for judging which banks should reopen. For example, officers of the Federal Reserve Bank of New York, which had the federal responsibility for review of the banks in the New York district, complained about ". . . the impossibility of the task we are asked to undertake . . ." and expressed a fear ". . . of banks being condemned without being heard and, perhaps, by judges in ignorance of recent developments . . ." The officers estimated that for New York banks with approximately $1 billion in deposits: "It is not humanly possible . . . to appraise with accuracy the position of such banks and their future depends almost entirely on the future of business." The Federal Reserve Bank of New York was so concerned about its liability in reopening banks that it took the very aggressive step of seeking indemnification against losses from the President and was only satisfied after it had been notified on March 11 that "The President of the United States is writing a letter to the Secretary of the Treasury assuming, as far as he can, that moral obligation to keep open the reopened banks which, until now, had to be assumed entirely by the Federal Reserve banks."[50]

The ability of the RFC to provide capital funds to threatened banks was also unlikely to have been a material factor in the reopening calm. Authorizations under this RFC facility only amounted to $15 million by the end of March, and its use was strongly resisted by the crucial New York banks.[51]

[49] *Federal Reserve Annual Report 1933*, p. 28. If federal deposit insurance did not provide stability why was it implemented? My interpretation is that so many modest depositors were inconvenienced and frightened by the bank closings that something was necessary to soothe them. E. A. Goldenweiser said as much: "This measure protects the savers of the country from uneasiness about the validity of their deposits and no doubt is sufficient to prevent bank failures caused by withdrawals of savings or other small or medium-sized deposits." Goldenweiser, *American Monetary Policy*, p. 172.

[50] Harrison Papers, Binder 50, vol. 3, pp. 107–9, 124, 126.

[51] *Report of The Reconstruction Finance Corporation, Fourth Quarter, 1933*, pp. 23, 32.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

If these various domestic measures could not account for the banking calm, the only domestic factor remaining was President Roosevelt's personal impact on the confidence of depositors. There is no doubt that his inaugural speech, his fireside chat about the banking system, the various measures he rushed through Congress, and his general ability to take command had a very favorable impact on confidence. Measurement of this impact is highly subjective, but intuitively it cannot be a large part of the explanation. There were many types of depositors—individuals, banks, corporations, institutions, governments, and foreign dollar holders—whose confidence was sustained over a considerable period of time but who had little faith in Roosevelt. Elements of the business press, particularly *The Commercial & Financial Chronicle*, began to criticize President Roosevelt's actions within weeks of his inauguration. It would be more satisfying to point to explicit measures dealing with the crisis that had a calming effect.

The gold embargo and foreign exchange controls were measures that came into effect immediately and restricted almost all depositors, thereby stopping the withdrawals of large domestic and foreign depositors who had placed such pressure on the Federal Reserve Bank of New York for gold. A modest amount of gold was licensed for export in April 1933 ($9.6 million), but after April 18, all requests for licenses were refused, and on April 20, gold exports were prohibited by executive order except to foreign governments. The maximum immediate foreign demand for U.S. gold was therefore limited to approximately $600 million of foreign deposits versus U.S. gold reserves of approximately $3.7 billion.[52] The unlimited demand for gold which all U.S. deposits had previously represented was shut off by the prohibition of domestic gold ownership and by controls on foreign exchange trading.

The restrictions on gold exports and foreign exchange trading allowed Roosevelt to devalue the dollar from $20.67 per fine ounce of gold to approximately $35.00 in a series of small steps between April 18 and the end of July. In foreign currency terms, the dollar was devalued from $3.43 per pound sterling to $4.64, and from 3.93 cents per French franc to 5.46 cents. Without the gold and foreign exchange restrictions there would have been huge speculative flows into gold and foreign currencies during the period, just as there were prior to the Bank Holiday. Instead, the banking system and foreign exchange markets functioned calmly. Attention was focused on the benefits of a rising price level, which caused the Dow Jones Industrial Index to rise from 62 on April 15 to 109 in July and caused the prices of A-rated corporate bonds to rise $20 to $30.[53] Once this degree of dollar devaluation had been achieved, the

[52] *Banking and Monetary Statistics*, p. 575.

[53] Barrie A. Wigmore, *The Crash and Its Aftermath A History of Securities Markets in the United States, 1929–1933* (Westport, 1985), pp. 456, 503–4.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

motivation for speculation against the dollar was decisively removed and foreign exchange controls were allowed to lapse without any disruptive effects.

SUMMARY

The international aspects of the financial crisis that led to the Bank Holiday are the focus here. Banking systems in many states experienced a crisis because banks' securities and loan assets declined in value, the Federal Reserve did not offset a decline in the money supply with open market purchases, the public hoarded currency, and the RFC publicized the names of banks it aided. However, the extension of the crisis to New York City banks, and specifically the timing of the request to Governor Lehman to close the New York banking system, appear to have been largely caused by a run on the dollar which developed in the last half of February fueled by fears of a general bank holiday and a devaluation of the dollar. The run on the dollar involved outright speculation that it would be devalued, but also Bank of England dollar withdrawals, securities portfolio movements, leads and lags in trade payments, and forward dollar sales matching loan repayments under the German standstill agreements. New data on daily gold holdings from the Federal Reserve Bank of New York's archives indicate that it, rather than the New York commercial banks, was forced to suspend payments and seek a holiday in New York because its ability to pay out gold was exhausted. It could not use the gold reserves of the rest of the Federal Reserve System because the other Federal Reserve banks refused to cooperate. Emphasis on gold losses rather than currency losses as the immediate cause of the Bank Holiday is consistent with both the claims of the New York banks that they were in a position to pay out cash for almost 100 percent of deposits and the Federal Reserve's ability to pay out currency but not gold.

The Roosevelt Administration was able to restore a remarkable degree of calm to the banking system. The flow of gold and deposits out of the banking systems was reversed after the Bank Holiday, commercial bank borrowing from the Federal Reserve System declined sharply, and bank closings dropped to unprecedented low levels. However, historians have given too much credit for the recovery to domestic elements of President Roosevelt's program. FDIC insurance was too small and too late ($2,500 per depositor beginning in 1934). Federal review of banks to be reopened was too disorganized and lacking in information. RFC support was too modest (only $15 million by the end of March). And President Roosevelt's undeniable personal impact on confidence could only be sustained by actions that justified it.

Roosevelt's international actions—embargoing gold (floating the dollar), controlling foreign exchange transactions, and eventually devalu-

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms

ing the dollar—deserve greater emphasis. These actions were immediate, long lasting, and affected almost all depositors. Initially, they directly attacked the problem of the run on the Federal Reserve Bank of New York's gold supply by enclosing large depositors in the domestic banking system, and in due course they removed the incentive for speculation on further decline in the value of the dollar.

The broad implication of my emphasis on the international aspects of the Bank Holiday is a reevaluation of Roosevelt's role in it. It has been common to chastise the Federal Reserve and President Hoover for not dealing with the banking crisis more effectively, but in so far as it was caused by a run on the dollar stimulated by Roosevelt's discussions of devaluation, the measures to control it were substantially out of their hands, short of declaring the same Bank Holiday he did. Roosevelt's decision to devalue the dollar had a very positive impact on prices, economic activity, and the stock and bond markets, but the decision would surely have caused severe disruption to the banking system and foreign exchange markets were it not for the controls on gold and foreign exchange instituted in the Bank Holiday. In this light the Bank Holiday appears as the first step in a series of quite effective New Deal policies, rather than the denouement of an ineffective Hoover administration.

This content downloaded from
149.10.125.20 on Sat, 29 Jan 2022 02:03:04 UTC
All use subject to https://about.jstor.org/terms