File No. 616

1933 March 9

Message to Congress re The Banking Situation
To review at this time the causes of this failure of our banking system is unnecessary. Suffice it to say that the Government has been compelled to step in for the protection of the depositors and business interests of the Nation.

Our first task is to reopen the banks. This is an essential preliminary to subsequent legislation directed against speculation with the funds of depositors and against other violations of positions of trust.

In order that the first objective of the opening banks for the resumption of normal business may be accomplished, I ask of your Honorable Bodies the immediate and emergency enactment of legislation giving to the executive branch of the Government control over banks for the protection of all depositors, authority immediately to open such banks as are in sound condition, and authority to reorganize and reopen such banks as require reorganization to put them on a sound basis.

I ask amendments to the Federal Reserve Act to provide for such additional currency adequately secured as it may become necessary to issue to meet existing and future shortages of currency, and at the same time to achieve this end without increasing the unsecured indebtedness of the Government of the United States.
I cannot too strongly urge upon the clear necessity for immediate action. A continuation of the strangulation of banking facilities is unthinkable. The passage of the proposed legislation will result in the immediate resumption of the larger part of these functions, and I trust within a short space of time the return to normal business. The members of the new Congress will, I am confident, realize the grave responsibility upon me and upon them. In the short space of five days it is impossible for them and for me to formulate completed measures to prevent the recurrence of the evils of the past. This does not and should not, however, justify any delay in accomplishing this first step. At an early moment I shall request of the Congress two other measures which I regard as of immediate urgency. With action taken thereon we can proceed to the consideration of a rounded program of national restoration.
On Saturday last banking operations in the United States ceased. To review at this time the causes of this failure of our banking system is unnecessary. Suffice it to say that the Government has been compelled to step in for the protection of the depositors and business interests of the Nation.

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Note: This is on display in the south section of the Main Gallery of the Museum - January 1971.
I cannot too strongly urge upon you—Honorable Bodies—the clear necessity for immediate action. A continuation of the strangulation of banking facilities is unthinkable. The passage of the proposed legislation will result in the immediate resumption of the larger part of these functions, and I trust within a short space of time the return to normal business conditions. The members of the new Congress will, I am confident, realize the grave responsibility upon me and upon them. In the short space of five days it is impossible for them and for me to formulate completed measures to prevent the recurrence of the evils of the past. This does not and should not, however, justify any delay in accomplishing this first step. At an early moment I shall request of the Congress two other measures which I regard as of immediate urgency. With action taken thereon we can proceed to the consideration of a rounded program of national restoration.
On September 2, banking operations in the United States ceased.

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Our first task is to reopen the banks. This is an essential preliminary to subsequent legislation directed against speculation with the funds of depositors and against other violations of positions of trust.

In order that the first objective of the opening of banks for the resumption of normal business may be accomplished, I ask of you, Honorable Members of the Congress, the immediate and urgent enactment of legislation giving to the executive branch of the Government control over banks for the protection of depositors; authority immediately to open such banks as in sound condition; and authority to reorganize and reopen such banks as require reorganization to put them on a sound basis.

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In the short space of five days it is impossible for me to formulate completed measures to prevent the recurrence of the evils of the past. This does not and should not, however, justify any delay in accomplishing this first step. At an early moment I shall request of the Congress two other measures which I regard as of immediate urgency.

With action taken thereon we can proceed to the consideration of a rounded program of national restoration.
Our immediate objectives are (1) to furnish the people credit or currency mediums adequate to finance the business of the country and to meet the daily needs of individuals; (2) the reopening of the banks of the country; and (3) their reopening on such a sound basis as will inspire confidence and insure against a recurrence of the present difficulties. Broadly speaking, there are three problems to be solved: (1) the opening of banks; (2) supplying currency wherever full bank facilities are not immediately available; and (3) prevention of hoarding of currency and of gold and restriction of exchange operations that do not represent actual business or commercial transactions.

Since the one indispensable quality in any banking system is that it should command confidence, since confidence cannot exist unless the bank structure is known to be sound, and since all experience demonstrates that the operation of very weak banks alongside of strong and sound ones is a constant menace and the parent of fear, the basic principle which should guide us in lifting the existing suspension is that in so far as it lies within our power only wholly sound banks should be permitted to operate fully.

In the present circumstances the time element is all important. By Monday we must have banks opened throughout the United States. They must be sound banks. They must command the full confidence of the people. This obviously means that all
banks cannot be opened. A very great number can, however, be opened at once, and many more added to their number almost immediately. There are others that can readily be reorganized upon a sound basis and opened with almost equal promptness. There are still others whose reorganization will take a little more time but which eventually can be reopened. Finally, there is a group that should be liquidated.

The determination of what banks are ready and willing to open at once can only be effected by the heartiest cooperation between the officers and directors of the banks throughout the country and the agencies of the government. Time being of the essence, we must frankly recognize the fact that all of the sound banks cannot be opened at once. Even after the officers and directors have signified their desire to open on a 100 per cent basis it will still be necessary, in order to give the necessary assurances to the country, to obtain the approval of the Federal Government acting upon the recommendations and through the Federal Reserve banks, the state banking authorities and the Office of the Comptroller of the Currency. It should be clearly understood therefore that if a bank does not reopen at once on a 100 per cent basis it does not in any sense carry with it the implication that such a bank is unsound. It simply means that either its officers and directors have not felt ready as yet to reopen fully, or that the official authorities have not found time to pass upon its application.
A considerable number of banks can be reorganized into sound institutions singly or through the combination of one or two or three banks as local circumstances may determine. These reorganizations should take place at once. The banks owe it to their depositors and to their communities to do so. The Government is prepared to assist. Where it is impossible to raise new capital in adequate amounts in order to facilitate prompt reorganizations, the Government is prepared, through the Reconstruction Finance Corporation, to subscribe to preferred stock. In order to meet the immediate needs of communities which in the first instance may not be equipped with customary banking facilities, it is proposed to make available an increased supply of emergency currency. Any individual, partnership or corporation will be permitted to borrow directly from the Federal Reserve banks and their branches on United States Government securities as collateral. The Federal Reserve Banks will be authorized to issue against notes so secured Federal Reserve bank notes of the type issued during the war, based at that time on the deposit of Government bonds possessing the circulation privilege.

It is further proposed that the Federal Reserve banks will be authorized to make loans to member banks on their notes secured by sound assets and to issue to them Federal Reserve bank notes.

In order to insure absolute safety during the early stages of this program, all necessary authority is to be granted the President to prevent hoarding of gold or currency and the transfer of credit between banks, as well as authority to regulate and control various phases of the foreign exchange business.
In order to carry out the program above described, I propose to recommend to the Congress enactment of legislation along the following lines:

1. A law approving and confirming all acts taken by me under the terms of Section 5 (b) of The Trading with the Enemy Act;

2. Reenactment of Section 5 (b) of the Trading with the Enemy Act so amended as to meet existing conditions, and granting to the President all necessary authority to prevent the hoarding of gold or of currency and the transfer of credit between banks, as well as authority to regulate and control various phases of the foreign exchange business;

3. A law granting to the Comptroller of the Currency, subject to the approval of the Secretary of the Treasury and such rules and regulations as the Secretary of the Treasury may prescribe, such control over all banks as may be necessary for the protection of the rights of all depositors and creditors, the said law to contain a further provision providing for the prompt reorganization of such banks as it may be necessary to reorganize in order to put them on a sound basis, under such rules and regulations as the Comptroller of the Currency may prescribe, with the approval of the Secretary of the Treasury;

4. A law amending the Federal Reserve Act so as to provide –

(a) For the direct loans to corporations, partnerships, and individuals by the Federal Reserve Banks upon United States Government obligations furnished as collateral;
(b) Broad powers to the Federal Reserve Banks to loan to member banks on sound assets other than those now prescribed as eligible;
(c) Authority to the Federal Reserve Banks to issue Federal Reserve Bank notes

1. Against obligations of the United States Government owned by Federal Reserve Banks;
2. Against notes of corporations, partnerships or individuals secured by obligations of the United States Government;
3. Against notes of member banks secured by sound assets.
By Saturday evening of last week practically all of the banks throughout the United States had ceased to perform normal banking functions. In many states emergency statutes had been adopted, differing as to details, but in the main authorising the state banking authorities to restrict payments to depositors according to uniform and arbitrary percentages, generally speaking, a very low percentage of deposits. In many other states bank holidays had been proclaimed by the Governors, in some cases with but color of legal authority. In some communities banks were still open on a normal basis, in others some few banks were preparing to open on Monday. Conditions were chaotic. The people were bewildered and confused. It was essential to bring order out of chaos and to make a fresh start. Since the problem starting locally, had gradually grown until the entire nation was embraced, order could come only from national action.

Late Saturday evening I took such action under the authority granted by one of the War Statutes still in existence.

Such a situation can be attributed to no one cause. It grew out of a variety of causes which, for present purposes, it is unnecessary to analyze. (The central factor, however, which must be grasped in order to develop a remedy is that the crisis is basically a banking crisis, and only in a secondary degree a currency problem.) There are a very great number of sound and strong banking institutions in the United States capable of furnishing the country with adequate banking facilities. There
are a number that as a result of strains and the melting away of values, due to the prolonged depression, need to be revitalized and strengthened through reorganization. There are some that should not be permitted to reopen.

As a result of the unprecedented number of bank failures during the course of the last few years, the confidence of the people has been shaken, and without confidence no banking system can function adequately. In more recent weeks the spectacular suspension of banking activities in large industrial centers which invited nationwide attention, preceded and followed by other incidents, all operating against a general background of fear and lack of confidence, set in motion a train of events which culminated in the chaotic situation above mentioned. What happened was that depositors in large numbers began withdrawing their deposits from institutions which were felt might not stand severe strains. The movement gradually spread to stronger institutions which were fully able to meet this and other shocks. In order to protect the weaker institutions and preserve from wasteful dissipation the resources of the stronger one, the various state protective measures were put into effect. As community after community became deprived of its normal banking service -- and we must remember that 90% of this country's business is carried on through bank credit -- there at once developed an enormous demand for currency to take the place of bank checks. This currency could only be supplied by the banks that were fully functioning. As the area
of banking inactivity spread this demand for currency in turn increased and threw an unprecedented strain; first, on the commercial banks still open, and in the second place on our Federal Reserve banks. Such a process carried on a huge scale was bound of itself to engender and to increase fear, and with fear feeding on fear the process of attrition and dissipation of our banking resources through hoarding grew at a constantly accelerated pace. Added to the fear of bank closings, a new fear came into existence - the fear that the supply of currency would prove inadequate, which was accompanied by domestic hoarding of gold and a flight of capital from the dollar to foreign lands.

Our immediate objectives are (1) to furnish the people credit or currency mediums adequate to finance the business of the country and to meet the daily needs of individuals; (2) the reopening of the banks of the country; and (3) their reopening on such a sound basis as will inspire confidence and insure against a recurrence of the present difficulties. Broadly speaking, there are three problems to be solved: (1) the opening of banks; (2) supplying currency wherever full bank facilities are not immediately available; and (3) prevention of hoarding of currency and of gold and restriction of exchange operations that do not represent actual business or commercial transactions.

Since the one indispensable quality in any banking system is that it should command confidence, since confidence cannot exist
unless the bank structure is known to be sound, and since all experience demonstrates that the operation of very weak banks alongside of strong and sound ones is a constant menace and the parent of fear, the basic principle which should guide us in lifting the existing suspension is that in so far as it lies within our power only wholly sound banks should be permitted to operate fully. Remember, we are dealing with an entirely new situation, while not technically true as a practical matter of all banks today that are closed. What we are seeking to do is to reopen them. The situation of the United States as a whole is no different in principle from one in a given community where because of the weakness of one or two institutions, all banks had temporarily suspended their normal functions. What the citizens of that community would do would be to reopen first the strong banks and then building around them strengthen and reopen the other banks.

In the present circumstances the time element is all important. Before the end of the week we must have banks opened throughout the United States. They must be sound banks. They must command the full confidence of the people. This obviously means that all banks cannot be opened. A very great number can, however, be opened at once, and many more added to their number almost immediately. There are others that can readily be reorganized upon a sound basis and opened with almost equal promptness. There are still others whose reorganization will take a little more time but which eventually can be reopened. Finally, there is a group that should be liquidated.
The determination of what banks are ready and willing to open at once can only be effected by the heartiest cooperation between the officers and directors of the banks throughout the country and the agencies of the government. Time being of the essence, we must frankly recognize the fact that all of the sound banks cannot be opened at once. Even after the officers and directors have signified their desire to open on a 100 per cent basis it will still be necessary, in order to give the necessary assurances to the country, to obtain the approval of the Federal Government acting on the recommendations and through the Federal Reserve banks, the state banking authorities and the Office of the Comptroller of the Currency. It should be clearly understood therefore that if a bank does not reopen at once on a 100 per cent basis it does not in any sense carry with it the implication that such a bank is unsound. It simply means that either its officers and directors have not felt ready as yet to reopen fully, or that the official authorities have not found time to pass upon its application.

If the necessary legislation is enacted on Thursday a very great number of banks in all sections of the United States possessing, on the basis of a hasty survey, well over one-half of the commercial banking resources of the country, can be opened on a 100 per cent basis, subject only to reasonable regulations to prevent hoarding, Friday morning. Others can be added to this list within a few days, with due observance in every case of the principle that opening must be predicated upon soundness.
There are a considerable number of banks that can promptly be reorganized into institutions that will meet this test, singly, or through the combination of one or two or three banks as local circumstances may determine. These reorganizations should take place at once. The banks owe it to their depositors and to their communities to do so. The Government is prepared to assist in every way. Where it is impossible to raise new capital in adequate amounts in order to facilitate reopening existing institutions on a sound basis, or to assist them in opening a new bank or banks, the Government should be prepared through the Reconstruction Finance Corporation to subscribe to preferred stock. It will be remembered that in the first instance the Government furnished all the capital of the Federal Farm Loan Banks and more recently, through the Reconstruction Finance Corporation, the capital of Regional Agricultural Credit Corporations.

The carrying out of such a program means that the country will have banking facilities adequate to its immediate needs by the end of the week, and if the banks themselves, their depositors, industrial and commercial leaders, and the public generally, acting in their own communities will cooperate fully in this movement at a comparatively early date the entire banking structure of the United States can be revitalized and established on an unshakable foundation.
There are certain communities which in the first instance may not be equipped with the banking facilities to which they are accustomed. In order to meet their immediate needs it is proposed to make available an increased supply of emergency currency. The mechanism contemplated is a simple one. Any individual, partnership, or corporation may borrow directly from the Federal Reserve banks and their branches with United States Government securities as collateral. Since it is estimated that there are $11,000,000,000 of Government securities outstanding in the hands of the people other than those held by banks, it is obvious that any temporary lack of bank credit as a medium of exchange can be supplemented from this source. The Federal Reserve banks will be authorized to issue as against the Government's securities put up by these borrowers Federal Reserve bank notes.

Federal Reserve bank notes were issued during the war against the deposits of Government bonds possessing the circulation privilege and were not subject to normal reserve requirements. It is proposed that the latter provision shall apply in this case.

In order to insure a supply of currency to enable open banks to meet all of the demands of their depositors, though those demands should be governed by normal needs the element of fear having definitely been eliminated, it is proposed that the Federal Reserve banks should be authorized to make loans to the banks on their notes secured by their sound assets and to issue to them Federal Reserve bank notes. While it is inconceivable that such a contingency should arise as any bank authorized to be opened is to be sound, this provision
would permit loans in amounts sufficient to pay off all of the deposits of such banks should they be demanded.

In order to insure absolute safety during the early stages of this program an embargo on gold payments, except under license, will be continued and the legislation should provide a heavy tax upon the hoarding of gold or currency. The continuing to hold gold or currency in excess quantities will be considered hoarding, and banks will be directed not to pay out currency for hoarding.
On March 3 banking operations in the United States ceased. To review at this time the causes of this failure of our banking system is unnecessary. Suffice it to say that the Government has been compelled to step in for the protection of depositors and the business of the Nation.

Our first task is to reopen all sound banks. This is an essential preliminary to subsequent legislation directed against speculation with the funds of depositors and other violations of positions of trust.

In order that the first objection the opening of banks for the resumption of normal business -- may be accomplished I ask of the Congress the immediate enactment of legislation giving to the executive branch of the Government control over banks for the protection of depositors; authority forthwith to open such banks and other banks as may be found to require reorganization to put them on a sound basis.

I ask amendments to the Federal Reserve Act to provide for such additional currency, adequately secured, as it may become necessary to issue to meet all demands for currency and at the same time to achieve this end without increasing the unsecured indebtedness of the Government of the United States.
I cannot too strongly urge upon the Congress the clear necessity for immediate action. A continuation of the strangulation of banking facilities is unthinkable. The passage of the proposed legislation will end this condition and I trust within a short space of time will result in a return to normal business activities.

In addition, it is my belief that this legislation will not only lift immediately all unwarranted doubts and suspicions in regards to banks which are one hundred percent sound but will also mark the beginning of a new relationship between the banks and the people of this country.

The members of the new Congress will realize, I am confident, the grave responsibility which lies upon me and upon them.

In the short space of five days it is impossible for us to formulate completed measures to prevent the recurrence of the evils of the past. This does not and should not, however, justify any delay in accomplishing this first step.

At an early moment I shall request of the Congress two other measures which I regard as of immediate urgency. With action taken thereon we can proceed to the consideration of a rounded program of national restoration.
MESSAGE
OF
THE PRESIDENT

to the Senate and House of Representatives

On March third banking operations in the United States ceased. To review at this time the causes of this failure of our banking system is unnecessary. Suffice it to say that the Government has been compelled to step in for the protection of depositors and the business of the Nation.

Our first task is to reopen all sound banks. This is an essential preliminary to subsequent legislation directed against speculation with the funds of depositors and other violations of positions of trust.

In order that the first objective — the opening of banks for the resumption of business — may be accomplished, I ask of the Congress the immediate enactment of legislation giving to the executive branch of the Government control over banks for the protection of depositors; authority forthwith to open such banks as have already been ascertained to be in sound condition and other such banks as rapidly as possible; and authority to reorganize and reopen such banks as may be found to require reorganization to put them on a sound basis.

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FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
March 9, 1933.
MESSAGE

OF

THE PRESIDENT

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FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

March 9, 1933.
The President announced this afternoon that he has issued a call for a special session of the Congress to convene on Thursday, March 9 at twelve o'clock, noon.

This is the first statement to the press issued by President Roosevelt after he became President of the United States and written in his own handwriting.

3/5/33

original located in Warren Speech File #611 (Box 13)