FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6746

October 29, 1930.

SUBJECT: Bank Failures.

Dear Sir:

Referring to Governor Meyer's telegram of October 18, 1930, there is attached hereto for your information, copy of a letter which the Federal Reserve Board has today addressed to Mr. Clement H. Congdon of the Philadelphia Sunday Transcript, on the subject of bank failures.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

(TO GOVERNORS OF ALL FEDERAL RESERVE BANKS)

C O P Y

X-6746-a

October 29, 1930.

Mr. Clement H. Congdon
Sunday Transcript
329 Real Estate Trust Building
Philadelphia, Pennsylvania

Dear Mr. Congdon:

A number of the Federal reserve banks have referred to the Board your letter of October thirteenth relating to bank failures.

In the first paragraph of your letter, you state that "during all the period of time throughout which the Federal Reserve Bank System was being formed and developed it was most specifically and most persistently insisted that the System would make member banks failure proof." It has never before been brought to my attention that any one familiar with the purposes of the Federal reserve system, as laid down in the Federal Reserve Act, has claimed that the system was designed to or could prevent all bank failures. The statement, however, was frequently made at the time of the passage of the Federal Reserve Act, that under the system no member bank with an adequate supply of eligible paper would be compelled to close its doors because of inability to obtain the necessary cash to meet over-the-counter withdrawals of its customers. Experience has shown that this has proven to be the case, as every member bank with an adequate supply of eligible paper or of United States securities in its portfolio is able to borrow promptly from the Federal reserve bank and obtain all the currency it may require to meet deposit withdrawals. This was not true before the establishment of the Federal reserve system, when the currency was not elastic and not susceptible of expansion to take care of emergencies. At that time unusually large demands for currency not infrequently resulted in currency panics, but no such panics have occurred or could occur under the Federal reserve system.

The Federal Reserve Board has given a good deal of thought and study to the question of the reasons for the recent bank failures, and has discussed this subject from time to time in its annual reports. May I particularly refer you to the section on bank suspensions, beginning on page ten of the annual report for 1926, of which a copy is enclosed?

Very truly yours,

Eugene Meyer
Governor