A Socialist Program for Banking

By NORMAN THOMAS

THE editors of The Nation do me the honor to ask me: "What would you do about the banking problem if you were sitting in the White House?" No fair or reasonable answer is possible without a preliminary statement. I am concerned with achieving the most rapid and orderly transition possible from a dying capitalism to a Socialist society. Presumably President Roosevelt is concerned with making the capitalist system work as effectively as possible. I should find no joy in trying to do anything in the White House except as the leader of a powerful party bent on establishing a cooperative commonwealth. The Democratic Party has no such purpose. To me the amazing revelations concerning the ill-ordered racket that American banking has become are indicative of the state of our whole capitalist society. I can imagine that, if not President Roosevelt, then some other believer in a better-ordered capitalism might at this juncture want to go even to the length of nationalizing banking. That such a desire could be realized, given the practical and psychological hold of capitalist finance on our existing order, I have grave doubts. Conceivably, however, the nationalization of banking in a capitalist society might be used for fascist instead of Socialist ends. True socialization of banking can only be achieved hand in hand with the general socialization of natural resources, public utilities, and basic industries. It must be the work of a government consciously dedicated to production for use, not profit, in the interest of the great mass of those whose labor of hand and brain maintains human existence.

In the light of this statement of my essential convictions, it will be seen that I have no particular criticism of President Roosevelt as an individual in this crisis. It is the fundamental philosophy which he shares with the great majority of the American people to which I am opposed. In an emergency he acted promptly to lance an abscess. That process has not cured, because it cannot cure, the deep-seated sickness of the body politic. The cure, I am more convinced than ever, is intelligent socialization. With regard to banking and currency, socialization requires the following things:

A. Some degree of inflation, or rather reflation, is imperative. No currency is sound when a farmer has to pay off his mortgage in from two to five times as many bushels of wheat, or bales of cotton, as when he made it. On the other hand, an uncontrolled inflation will be particularly disastrous to those whose whole security rests in a savings-bank account or insurance policy. It will work havoc on employed wage-earners, whose outrageously deflated wages will never catch up with rising prices. The present inflationary measure is solely for the benefit of a banking system which has all but ruined itself and us. Inflation should be directed to the relief of unemployment by a maintenance allowance and public works. It should be checked if and when the commodity price level crosses the level of 1926-27.

B. The vital question is the control of the banking system. Profits from banking in good times, and for the stronger banks even in bad times, have long been outrageously large. During the boom years they increased, on the average, at the rate of more than 16 per cent a year. What Mr. Mitchell made everybody knows. His neighbor, the First National Bank, was at one time making about $2,000 annually on every $100 of its original capital. Banks made money out of an indefensible system of affiliates, out of the privilege of issuing money, and out of their control of the life-giving stream of credit. How they used this power is known. Yet in the years of the depression they failed at a rate which rose to 10 per cent in one year, and they had in the end to be rescued by desperate measures. Profits are supposed to be the reward of risk. And now that the risks in banking are being transferred to the government, it is more than ever essential that the banks should be owned by the government. The method of procedure should be as follows:

1. The Postal Savings Bank should at once be converted into a general, publicly owned bank, administered not under Mr. Jim Farley but under a federal board. Commercial and thrift accounts should be carefully segregated.

2. All banks which have been or are to be rescued by governmental agencies should become government property, to be liquidated or incorporated in the publicly owned system.

3. States and cities should be allowed, under proper regulation, to open publicly owned banks similar to the successful municipal bank in Birmingham, England.

4. All Federal Reserve banks should be completely managed by public representatives in the public interest. Of course, the publicly owned banks should belong to this system.

5. For the present I think that existing privately owned banks, State or national, which are completely solvent may be allowed to operate, provided that they are completely divorced from their affiliates, and that, under the direction of the Federal Reserve system, they guarantee deposits. The absurd and dangerous chaos of forty-eight different State codes of banking should be ended for all banks.

Finally there should be a National Credit Board to direct the general flow of credit. It must be made forever impossible for a few New York and Chicago investment bankers, for their own hope of exorbitant profits, to float Peruvian loans against which their own experts have warned them, or to back the crazy financial schemes of an Insull or a Kreuger. This Credit Board should work in harmony, on the one hand, with the Federal Reserve Board, and on the other, with the National Planning Board which Socialists would set up. It should be observed that a proper control of short-time credit by the Federal Reserve Board and of long-time credit by the Credit Board could and should be used to stimulate and encourage such sound labor policies as the thirty-hour week.

This practical program can be worked out to the vast advantage of America. It will scarcely be adopted, and certainly it will not be intelligently used for social ends, until there is a new birth of purpose and effective organization among the masses, who have everything to gain by taking for society that which has heretofore been wasted and misused by the very nature of a system in which every basic enterprise is managed for the profit of a class of private owners.