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SOCIALISM AND BANKING: A REPLY

IN an interesting article in the February number of *The Nineteenth Century* Mr. Herbert G. Williams examines the growing interest which is being taken in banking by the Socialist Party. He mentions that this party is pressing for the nationalisation of banks, and, in particular, the Bank of England; and remarks that this movement 'has had considerable impetus given to it' from my book *Credit Power and Democracy*, with its commentary by Mr. A. R. Orage.

Now this is a misapprehension. It is true enough that the Socialist Party is pressing for the nationalisation of banks, together with many other large undertakings, and it is perhaps true enough to say that that party has devoted some additional attention to this matter as a result of the book which Mr. Williams has been kind enough to mention; but the impression that there is any suggestion of nationalising banks in that book is incorrect.

But I do not think Mr. Williams is alone in this misapprehension, nor do I think, on the other hand, that the fault is entirely with the book in question. It has become a habit to regard, almost without further examination, any criticism of the present methods by which the business of the world is carried on as being *ipso facto* a plea for the nationalisation of the industry criticised. The common antithesis, in fact, is the so-called private *administration* of business *versus* the so-called national *administration* of business.

There is room for a good deal of discussion on this question, which, if stripped of many of the irrelevancies with which it is surrounded, really resolves itself into a question of centralised or decentralised administration. It is even possible that a certain amount of industrial unrest can be attributed to questions of maladministration, and more particularly to over-centralised administration, resulting in a feeling of helplessness on the part of the individual to remedy technical defects, such helplessness producing either irritation in the case of the keener spirits, or perhaps, more usually, loss of interest in the work in hand. So far as this may be true, it is more prevalent in Government departments than anywhere else, although by no means absent

in such large undertakings as the railway companies, and such attractions as careers in these organisations offer are largely based on economic security. Any other argument which can be deduced from them is adverse to what is commonly called nationalisation.

But the point which I wish to make in this connexion is that the real issue in regard to banking is only very indirectly concerned with administration at all. It may be put in this way.

Whether banks are nationalised or whether they are administered on their present quite efficient lines, the matter with which they deal is public credit. This credit functions as money. The present banking *system lends* credit to individuals; that is to say, it assumes *a priori* that the credit with which it deals *belongs to the banks*. It must be borne in mind that these loans are *new money*, just as truly as though new Treasury notes were printed. The question at issue may be quite broadly stated by inquiring whether this credit does so belong to the banks, in which case they are correct in *lending* it, or whether it arises from the organisation of individuals, which for want of a better term we call the nation, and that therefore it belongs to individuals in their capacity of tenants-for-life of nationality, and is not properly lent to them, but (in order that the business of the world may be carried on smoothly) should be given to them, the banks being paid, of course, for their valuable services as trustees.

Now there is no practical solution, as far as I am aware, to this inquiry along the lines of orthodox ethics, although even along these lines it is possible to put up an unanswerable case in connection with the basis and consequent logical ownership of the purchasing power which bankers create. Broadly speaking, the ethics on which, equally, orthodox finance and orthodox Socialism proceed, fail to recognise what may be called 'the unearned increment' of association.

In any case, however, the pragmatic line of attack is infinitely preferable. If the present methods of credit control and distribution produced satisfactory results; even if there was any probability that the present methods could be continued without carrying in their train a catastrophe of the first magnitude, there would be a good deal to be said for leaving matters very much as they are. Industrial unrest on the one hand and international politics on the other are sufficient evidence that there can be no question of leaving things as they are. The choice is not between stagnation and change, it is merely between varieties of change.

A consideration of the practical side of this matter most conveniently starts, not with the banking system, but with the price system. Prices are the agency through which credit-purchasing power is returned to the banking system, which, as

Mr. McKenna has so lucidly explained in his addresses as chairman of the Midland Bank, creates all but an insignificant fraction of the purchasing power in this country. Prices have two limits, the upper limit being governed only by what the purchaser will or can pay, and the lower limit being governed by the cost of production. Bankers and business men are very apt to forget the lower limit of price, and this forgetfulness takes the form of assuming that if the community's purchasing power is restricted, prices will indefinitely fall—a proposition which the last few years of deflation in this country should be sufficient to confute. The fact is that when prices have fallen approximately to the cost of production, any attempt further to depress them by orthodox financial methods merely arrests production and removes the article of production from the market.

Modern productive methods depend more and more upon the use of power and of machinery. Factory cost of production includes sums in respect of these items, as well as costs which are incurred for wages and salaries. In so far as the machines, etc., which go into the cost of production of articles produced by their aid have already been paid for, and the payments have been used to cancel bank loans, the price of production, even without profit, is collectively in excess of the ability of the public to pay. This matter would require more space to deal with fully than is available at the moment, but to put it in its shortest form, the rate of flow of prices from the producing system is greater than the rate of flow of purchasing power, and this difference is measured by the disparity between bank credits created minus bank credits cancelled by repayment, and prices created minus price values destroyed, and it will be seen that the difficulty arises fundamentally from the necessity, under existing arrangements, of repaying bank loans. To say, as does Mr. Williams, that the effective bridging of this gap between collective prices and collective purchasing power involves unlimited inflation is merely to misuse words.

The outcome of the process of orthodox finance is a constant tendency to what is erroneously termed over-production. In spite of the patent need for goods and services of every kind, a need by no means confined to the destitute classes, and in spite of the ever-growing ability of the productive system, simply as a system, to meet this need for goods and services, we are constantly faced with periods of trade depression and such social phenomena as housing problems and wheat famines, to take only two of many examples. That is to say, the economic problem is not a technical or productive problem; it is, as the business man would say, a selling problem, or, as the economist would say, a problem of distribution. At the present time the situation is

partially met by the stimulation of what is probably unnecessary and undesirable, namely surplus production for export (over and above exported product exchanged for consumable goods) in order that the money distributed by this means as wages and salaries, which is mainly derived from bank credits, may be applied to the purchase of commodities already existing in the country. This is a process which merely consists in mortgaging future production in order to buy present production, and at the same time raises up the most formidable problems of international competition for export markets.

No question of administration enters into this problem at all. Whatever views may be held on the question of private or Civil Service administration, so long as the system which is administered is similar, the results of this administration will not be substantially affected; and it is not too much to say that a grasp of this proposition is the most formidable menace to orthodox Socialism with which that doctrine can be confronted.

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