PATHFINDER
October 29, 1932
p. 6

REFORMATION OF BANKING

IT HAD almost reached a point where our economic slogan was, "Stop hoarding; let the banks do it for you!" But just when "a lot of people had decided that banks were merely cold-storage plants," according to Advertising Age, they "are beginning to advertise that they receive deposits and lend money, too."

Piling up of surplus reserves only shrank credit. Besides, idle reserves were unprofitable and what with the need for promoting buying by extending credit the bankers' frozen hearts and assets seem to have thawed all of a sudden. There is no doubt but that selfish bank policies have delayed the nation's return to normalcy. Under the excuse of self protection, the average banker's eye has been too cold and his ear too deaf to help despairing individuals, not to mention the 30,000 concerns that failed last year. Already "stuck" with the paper of industrial overproduction, the banks became panicky and froze credit. They strove for liquidity to such a degree that they were, not without cause, accused of becoming, in effect, pawnbrokers. Banking no longer was a simple matter of business where a third man took his profit for discounting short term commercial paper. Almost over night bankers departed from their chartered course to become money merchants, only loaning on gilt edge pledges.

The old time banker, points out Colonel Elisha Ely Garrison, economist, was the man who acted as the middleman for merchant-traders. One merchant, ready to buy goods, would find a merchant ready to sell goods. So the buying merchant would give the selling merchant his note for the amount of the goods, and this note would be acceptable to the banker, who would discount it if the selling merchant was in need of ready money. This paper was actually a note made out by the buying merchant and indorsed by the selling merchant. A good short term note, made by one responsible merchant and indorsed by another, was regarded as good commercial paper by any banker. When the note became due it was taken up by the merchant who made it, and the banker made his profit out of the transaction. Thus banking was a good, safe business, and profitable according to the amount done.

When the banks began to accept notes that were not bills of acceptance made by one merchant and indorsed by another, but were backed by a collateral with fluctuating values and worth only what they would bring in the open market, they began to go outside the legitimate banking business. They became money lenders. They might be termed glorified pawnbrokers, for the pawnbroker, too,

OldMagazineArticles.com

makes loans on articles pledged with him. The principle is the same. Something is pledged for a loan, whether it happens to be railroad or telephone stock or a ring or last winter's overcoat.

The so called financial wizards discuss gold standards and the state of the stock market but, fundamentally, wealth is based on trade and the ma-

BANK REFORMS

As recommended by Dr. Theodore E. Gregory, professor of banking at the University of London, before the Institute of Politics:

1. Guaranteed bank deposits.
2. Uniform banking code.
3. Extension of branch banking.
4. Federal inspection of all banks.
5. Removal of bank shares from realm of speculation.

chinery of the stock market deals with the accessories of trade, including farm and manufactured products, transportation and methods of transferring information, whether by cable, wire or radio. The money of a nation is based actually, not on the amount of gold it may possess, but what is needed to transact business. The currency issued may be said to be theoretically backed by gold or silver but it actually is based on the commercial integrity of the traders who do business, the merchants who issue notes to buy goods and the merchants who accept these notes. It is all a matter of buying and selling, with the banker acting as a friend of both, a middleman who takes his fee by providing a medium of exchange which has the approval of his government and is thus duly sanctioned.

The capitalist who deals in short term commercial paper is a banker. The capitalist who loans money on a pledge may call himself a banker but he is really a money merchant, a glorified pawnbroker.

Things had reached such a pass in Amercan banking circles that a small business man could only get a loan if he put up collateral worth three times the amount of the loan, at current market prices. Provided the collateral was in United States bonds. Railroad or steel stock was practically barred. The banks were squeezing creditors and selling them out while shouting, "Have confidence!" Even now we have the strange picture of Jesse H. Jones, a director of the Reconstruction Finance Corp., publicly complaining because banks are "too reluctant" to borrow for the purpose of re-lending.

In Europe, too, the banker has become a target. Under the caption, "An Open Letter to the Banks," the London Express editorializes:

It is not fair to make the small man pay for the losses you incurred in dealing so generously with certain "big fellows"

OldMagazineArticles.com

so generously with certain "big fellows" in the past. If one of the large stores had a bad year it would not try to recoup itself by charging more. It would go out for volume of trade, and rely on the building up of profits on an increased turnover at the cheapest possible prices. You are deliberately charging the small borrower more than money is worth today. That is restricting trade. That is subsidizing unemployment. That is holding up essential supplies from the armies of industry. Bring down your interest charges and give the ordinary man a chance.

All of which induces the observation by Jay Lewis, columnist of the Norfolk Ledger-Dispatch, that "when we realize that to have money doesn't mean prosperity we will get somewhere!"

Meanwhile the Association of Independent Unit Banks of America has been formed, with headquarters at Harrisburg, Pa., to work for the upholding of state banking laws respecting branch banking on the assumption that the dual system of independent banks, state and national, as the safest banking system for the United States.

OldMagazineArticles.com