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## **THE SOCIALISATION OF BANKING**



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**THE SOCIALISATION  
OF BANKING**

**BY**

**OSCAR SACHSE**

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## FOREWORD

BY THE HON. SIR STAFFORD CRIPPS, K.C., M.P.

WITHIN the last few years the striking incongruity of the lavish production of every kind of necessity and luxury, accompanied by a more widespread state of unemployment than has ever been known, has more and more drawn the attention of the world to the failure of the mechanism of exchange and distribution. Many people who formerly looked upon "monetary policy" and "finance" as a subject-matter of such complexity that it had to be left exclusively to the experts are now anxious to find out for themselves why it is that with low prices and abundant supplies over thirty million persons who are anxious to work cannot be given the opportunity, but must be condemned to rely upon charity or a State dole to keep themselves and their families from starvation.

The experts, who were popularly supposed to know everything about money, its uses and its control, have disagreed widely upon every aspect of the problem, and the ordinary man is left wondering whether, after all, the experts are so wise, and, if they are, which is the wisest, and whose advice should be followed.

The great majority of these experts are steeped in those conceptions which form the basis of the existing financial and monetary system of the world, and

they hail as "cranks" all those—and there are many—who desire to bring about changes fundamental in their character. The failure of the present system to provide work and a standard of life commensurate with the increased power of production is so complete that the fear of greatly worsened conditions for the great mass of the people under an alternative system should not deter us from envisaging a change. But remedies born of despair are often more dangerous than the disease itself, and the first necessity for those who desire to make up their minds about this matter is to have a full appreciation of the existing system and a clear idea of its weaknesses and the reasons for its failure.

Every man and woman who is interested in their own welfare and the welfare of their country and of humanity as a whole will before long have to come to some decision upon this vital matter. Modern civilisation depends for its continuance upon a vast and complex system of exchange of commodities. The enormous population which has been built up upon the principle of the division of labour cannot return to primitive conditions of barter. Capitalism—to give a name to the existing system—has developed the power of production to a degree undreamt of by our forefathers, yet many people still think of the medium of exchange for the great mass of commodities produced in terms very similar to those familiar to the early Egyptians. Metallic coins have for thousands of years been used by man to effect the exchange of goods. Upon this metallic basis has been built a superstructure of paper money

and credits, till by gradual and unseen stages the great bulk of the medium of exchange has long ceased to be a metal and has become merely token ciphers entered in the books of the banks. Yet many people still cling to the idea that there must be some tangible and visible foundation for this great superstructure in the form of bars of gold hidden in the vaults of the central banks.

The question whether this country should or should not return to a gold basis for its currency is important for our existing system, but are we going to be any better off if we cling to our Capitalist conceptions, whether we are on or off the gold-standard?

There are, I believe, far more fundamental difficulties which must be tackled if ever we are to enter a period of permanent prosperity. It may well be that under Capitalism, if we desire it to linger on, we shall see boom years again; a spirit of trade revivalism may spread at any moment throughout the world and bring with it the impetus to speculation and to purchasing, freeing the locked-up medium of exchange and accelerating its movement from hand to hand. This increased velocity of circulation—the most vital factor in increased demand—will bring with it increasing employment and increasing profits, until the tide of trade depression once again starts the world back upon a policy of saving and hoarding, with the consequent fall in prices and increasing unemployment. These so-called cycles which plunge alternate generations into privation and despair can scarcely satisfy an intelligent people, still less so when the prosperity and privation of succeeding



cycles is so unfairly distributed amongst the different classes of the community. We want not only stability in conditions, but that form of stability which gives every man and woman a fair share of wealth and opportunity.

Another factor, which has been recently brought into prominence by the discussion on war debts, is the piling up, snowball fashion, of debts internal and external. Borrowing at interest for so-called capital works is condemning future generations to pay for those works often in perpetuity. Each succeeding generation finds itself carrying a heavier and heavier burden of interest charges. During the years 1914-1918, though all the necessary work for the war was then accomplished and all that work was paid for, yet we placed upon our descendants a perpetual charge of hundreds of millions of pounds a year as their contribution to our folly. We have now reached the stage when the absurdity of this system has become self-evident. Wholesale repudiation or cancellation of international indebtedness is taking place, and when the process is completed, are we to start again, like the spendthrift bankrupt who has got his discharge, piling up fresh debts and fresh obligations until again the load becomes so great that we are forced into cancellation or repudiation?

It is surely worth our while to enquire whether the world might not get along just as well or better without this system of borrowing capital at interest whenever it wants to create some useful—or sometimes indeed useless—so-called Capitalist asset. If we want to build 100,000 houses and we have the men who

can work and we can make the materials or buy them, why should the building of the houses entail a charge upon the next generation? Is it necessary, or could it be done just as well without such a charge?

It is questions such as these that can only be answered if we appreciate just what money is, what are its true functions, and whether and how it is being misused at the present time. The author of this book in his opening chapters has given a simple and easily understood explanation of these matters, so simple, indeed, that the reader may begin to wonder whether the "Abracadabra" of the expert is, after all, anything more than an over-elaboration of the detail of the existing machinery of "money" and finance. It may well be that a minute inspection of each tree prevents our seeing the wood, while a simple bird's-eye view of the wood will best enable us to find our way out of it. Of the necessity for a change from Capitalism to Socialism I am convinced, as I can see no solution under the existing system for the problems that surround distribution. So long as the present system of profit-earning enterprise and mass usury exists, I do not think that any tinkering with the money system will do more than alter temporarily the period of the so-called trade cycle. The arguments brought forward by the deflationists, reflationists and inflationists seem to me to support this view. The necessity, stressed by the author, for a definite and precise policy upon financial and monetary matters is indeed urgent. The days are passed when "Socialism" merely denoted an Utopian goal to be reached by a vague and uncertain road; today the

electorate want to see the map with the main route clearly marked upon it, and the financial and monetary policy is a very important part of that route.

A great deal has already been done in this direction by the Labour Party, which has declared itself in favour of the national ownership and control of the central bank, the Bank of England, and of the whole credit machine through the joint stock banks, together with the setting up of a National Investment Board. Those who desire to understand this policy in its fundamentals will find much that is enlightening in this book. Mr. Sachse expresses, of course, his own personal views and not in any sense those of the Labour Party, but he works out in an interesting and thought-provoking way the monetary and financial policy which he thinks would be best adapted to Socialism in this country. It will help all those of us who are studying this problem to clarify our own ideas and will, I am certain, make us realise the importance of the subject and the necessity for a clear and definite monetary policy before the next General Election.

## PREFACE

**CAPITALISM** has at present obviously broken down, but when prices start to rise again and speculators, merchants and entrepreneurs see a fresh chance of making profits, everything may to many people appear to be on the road to recovery. Yet prices cannot constantly be rising, and another slump must soon occur unless the whole economic system is radically altered.

Even most Conservatives seem now to recognise that some form of Socialism is the only feasible alternative to Capitalism. The Conservatives began to call the official opposition a "Socialist" party even before it really was one. When, therefore, the electors are sufficiently tired of the results of Capitalism, they will presumably vote for an experiment in some form of Socialism.

The official opposition ought to be prepared with a complete plan. A party attaining power should be able to act at once: it is too late then to start discussing policy. It is also natural and proper that voters should demand to know what they are asked to vote for. If the vast mass of doubtful voters suspect that the plan for Socialism is not quite finished, or if they do not even know which party has charge of it, then it is not surprising if they decide to wait.

The Socialist policy with regard to land, housing,

education, armaments and other things is fairly well known, but not so the policy with regard to money. It is known that Labour is now inclined to emphasise the necessity of nationalising not only the Bank of England, but also the joint stock banks; but what is to happen then?

Labour's daily newspaper has long been advocating the abandonment of the gold-standard, but Mr. Arthur Woodburn, who has written a "Plebs Text-book" on finance, in giving evidence before the Macmillan Committee, advised its retention. Mr. J. T. Walton Newbold was actually on the Committee, supposed to represent the interests of the workers, but he too advocated the retention of gold, of which he wrote in his reservation to the General Report :

"To this latter material belongs the peculiar quality of attracting and retaining over very long periods of time a socially necessary quantum of labour substantially invariable."

- The money problem is not quite simple. Mr. Pethick-Lawrence, Financial Secretary to the Treasury in the Labour Government of 1929, in his book called "This Gold Crisis," in chapter i., headed "The Mystery," wrote :

"For, like the Einstein theory, the higher flights of the problems of currency approach the present limits of human understanding."

Mr. J. M. Keynes requires about 760 pages to deal with the subject in "A Treatise on Money." Yet the problem must be solved, and perhaps, after

all, it may become fairly simple when we understand it!

Professor Frederick Soddy was once reported to have said :

“ As well ask a cat to explain the disappearance of the cream as ask financiers to account for the present poverty and distress.”

I am neither a financier nor a professional economist, being, in fact, an architect, but years ago I realised that if one really cares for architecture it is not with art or building construction that one must concern oneself, but with social problems and finance. There are plenty of capable young architects, and there would soon be more if there were anything for them to do. Such competitions as those for Liverpool Cathedral and the London County Hall were won by quite young men, and more competitions would soon bring fresh talent to light. It was the private ownership of land and the supposed need for economy, more than the lack of competent architects, that led to the building of miserable rows of badly placed houses which disfigure the towns of Britain.

The building of Liverpool Cathedral began about twenty-eight years ago and will probably continue for another twenty. Money has to be begged for, and when the whole structure is complete it will probably have cost about half the price of one “ Dreadnought,” which can be sunk in five minutes by an aeroplane.

Progress in most technical directions has been rapid enough. When one considers submarines,

poison gas, and the use to which our marvellous newspaper printing machines are often put, one could sometimes almost wish that progress in these directions had been slower. But in the mechanism of exchange there has been no progress at all.

“ And yet it is money, in its mechanical even more than its spiritual effects, which may well, having brought us to our present level, actually destroy society. Everything depends upon whether our combined and international wisdom can master the next stage of monetary science ” (Sir Josiah Stamp in a preface to “ The Money Illusion,” by Professor Irving Fisher).

That financiers have dismally failed to build up a happy social structure I think most people will agree. Therefore I hope that there may be some who are willing to examine, with patience and an open mind, an architect’s sketch-plan.

It is sometimes said that people who understand money do not write about it, whereas those who write about it do not understand it. My ambition is to be one of the exceptions which prove this rule.

OSCAR SACHSE.

*November, 1932.*

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