

—Ralph Borsodi

The "business of banking", as Webster's Unabridged Dictionary refers to it, originated in the middle ages when goldsmiths—in addition to accepting gold and silver coins from their customers for safe-keeping in their strong rooms—began to issue bills of exchange, so that their customers could transfer "money" from one city to another without having to transport the actual coinage itself.

What was then called a bill of exchange is today called depositing. What the goldsmith then did when he "cashed" a bill of exchange drawn on him by a goldsmith in another city is the equivalent of what a bank does today when it cashes a check presented by a customer but drawn on another bank.

Banking, reduced to its simplest form, consists of two basic activities: (a) accepting deposits of money subject to withdrawal on the depositor's instructions, and (b) lending or investing the money entrusted to banks until it is withdrawn.

Banking, though universally considered a "business" is not a business at all. It is a sad but outrageous fact that banking is conducted today as a business by men who label themselves businessmen—which presumably means an enterprise conducted for profit. In its essential nature, banking is a profession, and like every profession should be conducted to render a service by men whose motivation is service first, last, and all the time. They must, of course, be properly compensated for their work, but this, in its essence, should be a professional fee, not a business profit.

The principles involved seem to me the following:

1. Banking is a profession and not a business. The banker, like the lawyer and the doctor, unless he stultifies himself, must put the trust reposed in him before anything else. We entrust our health and even our lives to our doctor. We entrust vital rights and our material interests to our lawyer. We entrust our money and our savings to our banker. The banker is a trustee, and he has not more moral right to exploit the funds entrusted to him than a doctor has right to exploit the sickness of his patients, or a lawyer the difficulties of his clients. Professional compensation is one thing, but maximizing profits is something altogether different.

2. Bankers, like lawyers and doctors, should therefore be licensed and only those qualified by study (usually at an accredited university) and who observe professional standards both in their practice and in their charges for their services, should be permitted by law to engage in banking.

3. The banker, by the essential nature of the service he renders, is a fiduciary trustee. It is malpractice for him to do anything with the funds entrusted to him which he ought to know should not be done with them, just as it is malpractice for a doctor to prescribe treatments which he ought to know endangers the health of his patients. Nobody, no matter how great the profit, has a moral right to betray those who trust him. It is a betrayal to exploit the opportunity for profit which trust in his integrity creates.

4. Bankers should not be granted charters to operate

# The NATURE OF BANKING



banks as business corporations; they should not be legally authorized to earn profits for stockholders because corporations limit the liabilities of those who own them. In practice the law makes it virtually impossible to hold corporate officers and directors liable for what I am calling malpractice.

Banks should be owned and operated by sole proprietors, by partnerships, by mutual and cooperative associations; and all those who own them and conduct them should be personally responsible and accountable for the safety of the funds entrusted to them. All laws which exempt bankers, as would be true of all laws which exempted any kind of professional person for full liability for his or her practices, are morally null and void.

## Preventing Inflation

The economic well-being of nations in the free world would be assured and the debacle into which inflation is now leading them would be prevented:

if bankers became not merely the custodians of the money of the people in the community in which they are

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located, but trustees professionally engaged in ensuring both the safety of the these funds and their proper use;

if commercial bankers considered it a matter of professional integrity to see that the only purpose for which the funds in their charge were loaned was to facilitate commerce;

if they considered it unprofessional to use the funds entrusted to them to finance anything outside of their own community until that community's needs had been fully provided for;

and finally, if professional bankers operated savings institutions of all kinds and took over the whole field of investment—took it out of the hands of the so-called investment bankers of Wall Street. Then would the inflation debacle be prevented.

Not only would inflation be stopped—

Not only would the government be prevented from using the banks of the nation to indulge in its present extravagances by forcing them to finance its deficits—

Not only would Wall Street be stopped from using the banks of the nation to fleece investors—

Not only would speculative exploitation of the holder of securities, of the users and consumers of commodities, and of those desiring to use land, be reduced—

*The whole moral climate of the economy would be transformed.*

The most noteworthy change would be in the integrity and decency this would infuse into every kind of business enterprise. Businessmen would no longer find it necessary to have two kinds of moral standards—one for business in which the principle that "business is business" prevails, and one outside of business, where integrity and decency is taken for granted.

The second great change would come with the disappearance of unemployment as a major problem. Millions of savings now diverted into speculation would become available to finance every kind of legitimate business and create new jobs, and millions would be available to finance land trusts and make land available to so-called surplus labor.

The third would be the elimination of the misery caused by alternate "booms and busts", by the recessions and depressions which have plagued the modern world.

Finally, it would reduce, if not entirely eliminate, the disparity between the millionaires with their unearned riches on the one hand, and the millions of people living in undeserved poverty on the other.

If economics is to be rescued from its rationalizations and justifications of what is taking place in the world today, it must be transformed in five specific ways:

Economics should cease being an "objective" science and become a normative science; not just a study of wants and how to provide them, but of *what to want*, and how to provide them.

It ought to take account of both imputed (non-monetary) income and monetary income.

It ought to distinguish between wealth and illth, between goods and detriments, between providing necessary goods and producing unnecessary evils.

It ought to become the study of what the Greeks called *oikonomis* the science of housekeeping, the science of how to satisfy wants family by family and household by household.

Economics ought to cease being what it has in fact degenerated into—the science which the Greeks despised and called *chrematistikes*, —money making.

The above is a chapter from Ralph Borsodi's book, *Inflation Is Stealing! Let's Stop Those Who Cause It*, completed a few weeks before the fall which hospitalized him, and from which he did not recover, October, 1977.