

## Editorial

### *The banking system crisis*

The federal government must take new forms of action now, to deal with the tidal wave of banking failures.

The greatest danger, would be a refusal to recognize that the threat to our banking system is part of a combined economic depression and an international financial crisis with many analogies to that of 1929-32. If we pretend that there is no economic depression and no spiraling financial crisis, and if we continue to employ policies attuned to assumed normal business conditions, we invite an unnecessary, deep catastrophe.

First, the government must proceed on the basis of the fact, that most of the banking failures are the fault of neither the banks nor their borrowers.

Second, the wave of collapse of local banking institutions must be seen as adjunct to liquidation of farms and plant shutdowns. The loss of a large number of these institutions, during the present economic depression, would represent a major loss of essential structure of the U.S. economy, a loss of structure which could make an economic recovery very difficult to mobilize.

Third, under conditions of economic recovery, many of these banks, farms, and industries would be viable economic entities. Since it must be our intent, to make those changes in policy which bring about such an economic recovery, it should also be our policy to save those banks, farms, and industries which would resume economic viability under recovery conditions.

Therefore, our policy should be, to prevent precipitous collapse of banking institutions, and to take measures to maintain operations of those banks which would become viable under recovery conditions.

It should be determined, whether it were better to take the appropriate action under the President's emergency powers, or whether an emergency, clean bill must be enacted by Congress for this purpose. Were the latter deemed feasible, it were to be preferred, for rather obvious reasons.

An emergency action under law must provide for: The orderly and efficient determination of which im-

periled banking institutions could be successfully reorganized under conditions of economic recovery, and emergency measures of reorganization to provide for the continued operation of banking institutions falling into the latter category.

The following considerations should be included.

- Congress should resolve that a condition of threatened international financial crisis and economic depression exists, and that the government is resolved to effect such changes in current monetary, fiscal, and economic policies as may be needed to begin an immediate and durable economic recovery.

- The general approach to financial reorganization should be to classify non-performing assets as ceasing to accrue debt-service charges according to law.

- Non-performing loans which might become performing assets, in respect to unpaid principal, under conditions of economic recovery, should be considered as potentially performing loans, and that amount of value of unpaid principal should be classed as a frozen asset. If the bank is solvent on this basis, then the bank should be kept in operation.

- If there is no prospect for successful reorganization under conditions of economic recovery, and if greater damage to depositors would result from continuing operations than otherwise, the best mode of liquidation should be adopted.

The same approach should be adopted, on principle, for the case of foreign non-performing debts. Banks holding loans which are non-performing, should carry balances without accruing debt-service charges, unless the bank should elect to write off the entirety or a portion of this unpaid balance, carrying only some residue as a balance.

In the case of currently non-performing debts of foreign governments, except in the case of the so-called "least developed nations," it should be assumed that a successful reorganization of payment of either all or a substantial portion of the principal amount of the unpaid balance will occur.