

after, without trouble. The first is the question of rearmament which over three years would take a slice of the national income rising to between 15 to 20 per cent at its peak. How can the nation, without dangerously impairing income creation, find alternative sources of producing enough to fill the gap created by rearmament? The second major economic trend to which the first is bound to lead, is the tendency towards inflation at home. In the post-war period there was a brief interlude during which inflation seemed to have been brought under control. Not only was the flow of production then growing smoother than at any time since the war, but a surplus on the balance of payments was achieved. Looking forward, however, everything points to a surplus rather than a deficiency of *demand* at home. The average yearly balance of payments has been heavily in deficit, and by the scarcities and shortages of many goods, the road is set for inflation to offset any increases in productivity which Mr Caitskell so frequently speaks about but which is yet to be evident.

The third major economic development to be taken into account is the long-term shift in the terms of trade against this country. Whilst this is not the direct result of the rearmament programmes, it has brought the issue to a head. The amount of capital resources devoted to the expansion of manufacturing throughout the world over the past twenty-five years or more has increased the capacity of industry to consume relatively to the capacity of the producers of raw materials to produce. The result is that the prices of raw materials have risen compared to the price of manufactures. Whilst this process in the long run should benefit the sterling areas as a unit, being the largest producers of raw materials, the shift is bound to have disadvantages to the United Kingdom which is predominantly a manufacturing country. To maintain its standard of living or even to prevent it falling, United Kingdom exports, visible and invisible, must be increased in volume.

To deal with these difficulties in the next six months or more would no doubt require emergency measures, but it would also require an honest appraisal of the issues involved. That these issues have not been placed as yet before the people

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Book Reviews

Roosevelt and FRB

Beckoning Frontiers, by Marriner S. Eccles. Published by Alfred A. Knopf, New York. Pages 499. Price \$ 5.00

Reviewed by H. T. Parekh

IN *Beckoning Frontiers* Mr Marriner S. Eccles, Chairman of the Federal Reserve Board from 1934 to 1948, gives an inside account of the monetary and banking problems which developed during the New Deal, World War II and the post-war period. An unknown private banker in the 'twenties, Mr Eccles rose into prominence soon after the Wall Street crash, the subsequent bank failures and the election of Roosevelt as President of the US in

Mr Eccles propounded what were then unorthodox ideas, the central theme of which was that it was the duty of government to fight depression by putting new purchasing power into circulation and by legislating on every conceivable aspect of economic and financial life with a view to support the tottering economy. All his advocacy was to save American capitalism but he contends that only through an all-out effort of the State, private enterprise could again be brought into its own out of a deep depression. His thesis of a "compensatory economy" implies that when private industry is forced to work with reduced capacity due to lack of effective demand and in a period of growing unemployment, the State must come, out with schemes of large-scale public expenditure, if necessary even handing out money to individuals, so as to generate new purchasing power. He maintains that with a minimum of public expenditure the State can galvanise the economy and to overcome depression by inducing a maximum of private expenditure and thereby industrial recovery could be attained.

Eccles exercised considerable influence over Roosevelt because the economic philosophy which Roosevelt was vaguely groping for to meet the challenge of depression was explained in a forceful manner by him,

Eligible Paper vs Sound Assets

As a banker Eccles was first attached to the Treasury and in 1934 he was appointed Chairman of the Federal Reserve Board. He was confronted with the bank failures of the time and called upon to sug-

gest ways and means for restoring the country's banking structure. A striking feature of the solution he suggested was that the current banking practice was based on an incorrect approach when Federal Reserve System could assist banks only by re-discounting "eligible paper" which meant only short-period self-liquidating bills. Eccles suggested that a narrow interpretation of eligible paper seemingly appeared a sound banking principle and yet it was unable to prevent a banking crisis. Something was fundamentally wrong with the concept and he insisted that 'eligible paper' be replaced by "sound assets" so that the Federal Reserve System could have a sufficiently wide and elastic policy in assisting banks by advancing loans to them against any assets. This was the first step which made the Federal Reserve System more useful in tackling the problem of frozen assets of the banks. As a second step, in the face of powerful opposition from the East Coast bankers, Eccles persuaded Roosevelt to carry out the banking legislation of 1933 which gave wider powers to the Federal Reserve System in controlling the volume of credit.

Between 1933 and 1939 Eccles fought valiantly against those who insisted that a balanced budget was the first condition of economic prosperity and of public confidence. He showed convincingly that if by an unbalanced government budget, the nation's economy could be balanced,—that was the objective to be attained, balanced or unbalanced budget was only a means to that end.

Eccles's role gradually changed after the onset of the World War II and the development of inflationary situation arising out of the war. It must be said to his credit that he insisted that what was right policy during depression was the wrong policy during inflation. He had to make great efforts to check the philosophy of unbalanced budget which was causing harm as unbalanced budgets became the order of the day during the war period. The US National Debt which was about 48 billion dollars on the eve

of Pearl Harbour rose by six times to 280 billion dollars on the V-J Day. During the war, as head of the Federal Reserve System, Eccles had to fight the Treasury about the manner in which the Government must carry out its borrowing policy. The success of the public loans pleased the Treasury but Eccles warned that if new loans were merely taken up by the banks and did not represent savings on the part of the public, then the situation would be seriously inflationary and the Government would be aiding inflation instead of checking it. He insisted that a part of the cost of war should be financed by non-bank investors. With the enormous growth in public debt, its management became the first concern of the Federal Reserve System and raised new problems. The underlying current of hostility between the Treasury and the Federal Reserve System which developed during the war came out into the open in the post-war years and reached a climax after his retirement. Early in 1951 the efforts of the Treasury to maintain the gilt-edged market on 2/2 per cent had to be abandoned.

The drama which runs through the pages of *Beckoning Frontiers* with Eccles as the central figure ends dramatically with the fall of the hero. Truman did not renew his term of office in 1948. The vanity of Eccles which shows up frequently in these pages was pricked. The man who compared himself with Sanctor Glass, the creator of the Federal Reserve System, fell from grace and was intrigued as to how such a fall could come. He then found out that the real reason of his fall was his continued opposition to the powerful section of the West Coast bankers controlled by Giannini. Giannini's banking empire formerly known as the Bank of Italy and the Trans-American Corporation has subsequently become the Bank of America, now the biggest bank in the world. This banking empire developed on unorthodox lines and Eccles fought the empire from the Federal Reserve System because he considered this banking empire to be based on unsound banking practices. In spite of his strength, it is significant that Eccles failed and Giannini's banking empire has risen to be the biggest bank in the world. That empire engineered the fall of Eccles through political pressure brought on President Truman by Californian Congressmen who were under the influence of Giannini.

YEAR BOOKS

Nalanda Year Book and Who Is Who in India. Edited by Tarapada Das Gupta. Nalanda Press, 159-160 Cornwallis Street, Calcutta. Pages 576. Price Rs. 5-8.

Current Affairs (1951) India, Pakistan and the World, Edited by A. R. Mukherjee & Co. Ltd., Calcutta 12. Pages 612. Price Rs. 4.

A DIRECTORY or Year Book is essential for the proper appreciation of everyday news, as an atlas is for the study of geography. It is even more necessary in a country like India which is in the process of democratic unification. Every newspaper reader, therefore—and today this comprises not only the white-collared workmen but also many industrial workers—ought to possess an up-to-date directory for ready reference.

Here are two such volumes: 1. The Nalanda Year Book And Who's Who in India and Pakistan, and 2. Current Affairs—India, Pakistan and the World. Both contain some 600 pages of closely packed information, and are published from Calcutta.

Whether it is about the Fundamental Rights of Citizens under the Constitution or the names of Indian research laboratories, the note circulation since 1939 or the production figures of the major

industries; or whether it is the population of the various countries of the world or the lengths of the world's rivers and the heights of its mountain-peaks, one can profitably refer to any of these Year Books. They contain all these and much more information of a varied character—political, economic, literary, scientific, etc.—well classified and with detailed indices to help track down the information needed, and also to tempt the reader to nibble at other related or unrelated topics.

M. N. J.

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who are to cast their votes in what seems to be a crucial election is the saddest feature of the trend of politics of our time.

Already 1,386 candidates have registered themselves to fight for the 613 parliamentary seats available. The booking of halls by rival parties for election meetings is in full swing and the blare of loudspeakers can be heard from street corners. The daily *News Chronicle* has begun publishing the results of its weekly Gallup Poll and whilst many realise the dangers of election forecasting, predictions are plentiful. The Stock Exchange, in anticipation of a Tory victory and the end of dividend limitation and profit restrictions thereby, are having a minor boom in industrials.



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