BOOK REVIEWS:

H. H. BINHAMMER, THE DEVELOPMENT OF A FINANCIAL INFRASTRUCTURE IN TANZANIA, (UNIVERSITY OF DAR ES SALAAM ECONOMIC RESEARCH BUREAU MONOGRAPH SERIES No. 1 by the East African Literature Bureau, Nairobi, 1975) and

CLARA CESELLI, THE BANKING SYSTEM OF TANZANIA by (Cassa di Risparmio delle Provincie Lombarde, Milan 1975).

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These two books present the first comprehensive professional study of the Tanzanian financial system (defined by Binhammer as the whole set of institutions, as well as practices, which provide the country's payments and transfer mechanism) from the colonial times to the period beyond the Arusha Declaration (of 1967). They should therefore find their way to the book shelves of many students of the Tanzanian economy, in particular, and of many others interested in financial and development affairs.

The issues treated in the two books are very similar; a fact not too surprising as the two studies are essentially examining the financial infrastructure of the same country, roughly during the same period, and were both published in 1975. Caselli divides her study in three parts of which the last two correspond to Binhmmer's book: the topics discussed under different chapters of each book are Central Banking, Commercial Banking, Rural Credit, Industrial Finance, Housing Credit, and the Mobilisation of Savings. Caselli's first part looks at the Banking and Credit System of East Africa before the founding of the Central Banks of Tanzania, Uganda and Kenya in 1966. She starts with the examination of the East African system as a whole because as she correctly states on p. 93, "East Africa was one unitary area (until 1965) so far as credit is concerned, just as - and because - it was a unitary monetary area".

Although the two books cover a lot of common ground, there are three significant differences in emphasis: firstly, as stated above, Caselli devotes the first part of her book to establish the connection between the Tanzanian financial system before the founding of the country's Central Bank and the broader East African system. This is a necessary historical connection which Binhammer does not ignore but does not establish explicitly either. Secondly, while Binhammer in the first two chapters, one on central and another on commercial banking concentrates on what he rather narrowly describes as "the institutional framework for providing a medium exchange", Caselli in the corresponding chapters takes up most of the same issues (Illustrates some of them with more extensive data) and broadens the frame of analysis to discuss in some detail the appropriateness of certain traditional central and commercial banking roles in the context of Tanzania politico-economic development. In the case of central banking and overall monetary management, for instance, a separate chapter on Financial Planning is added to stress the importance of the latter in socialist monetary policy. Similarly, when discussing commercial banking, lending policy to public and private enterprises (which assumes basic importance in relation to resource allocation under the transition to socialism) is also discussed in some detail. We should add, to be fair, that Caselli had the benefit of referring to five papers written by Binhammer (as University of Dar es Salaam Economic Research Bureau Papers) on which the latter based his book, as well as of writing her findings during a slightly later period when the Finance and Credit and the Foreign Exchange Plans were already in active operation. Finally, although the chapters on Rural, Industrial, and Housing finance do not show much difference in coverage there is a tendency for Binhammer to stress issues related to sources-and-uses of funds, and for Caselli to emphasize the operational aspects of the relevant institutions. Again, Caselli used some of Binhammer's papers.

After the preceding discussion, centred mainly on financial institutions, the question of Saving Mobilisation is raised under a separate chapter of each book. Under this topic Binhammer captures more issues than does Caselli. The latter concludes by making an overall assessment of the country's credit and banking system.

All in all then, these books cover a lot of common ground, and therefore to distinguish between them one has to talk of biases and differences in emphasis. Thus if we were to attempt a generalisation we could say that Binhammer tends to emphasize the importance of building an underdeveloped country's financial infrastructure for facilitating and enhancing the saving-investment process while Caselli stresses the need to restructure a country's banking and credit system to match society's politico-economic aims. Of course the two objectives cannot be pursued independently of each other. These two issues, developed by discussing the evolution of Tanzania's financial system, should be of basic consideration in assessing the role of the financial sector in the development process.

Insights from this case study should therefore be useful to other countries at a similar stage in development, especially to those attempting to build a similar politico-economic system.

Within the framework adopted by the authors, however, there seems to be three important gaps the 'bridging' of which could have probably improved the discussion. First of all, monetary problems (in the chapters on Central Banking and monetary management) are intepreted to be mainly a function of excess demand created through excessive and autonomous monetary expansion resulting from deficit financing. Supply problems of the economy are touched on very slightly. Such a 'monetarist' interpretation, however, could be rather misleading particularly when it is taken as a basis for policy action; it tends to leave out other significant forces at work. Thus although it is important to note that there was a relatively fast monetary expansion over 1968-73, it is equally important for a development-oriented monetary policy (like the one to be pursued in Tanzania) to realise that the expansion was proceeding in the absence of an adequate real current capacity to import (which exceeded the 1966 level by a mere 2 per cent in 1970 and declined thereafter) and a reasonably growing agricultural sector (with, for instance, food output during 1969-73 growing at only close to 2.5 per cent p.a. compared to about 4 per cent p.a. required to keep the real price of food stable). The consequence of an inadequate current import capacity when monetary demand was rising fast, was the sharp losses in foreign reserves over 1970-71; and to import controls which resulted in upward pressures on the prices of imported commodities and their substitutes. The result of inadequate food production, on the other hand, was to make increases in food prices (as recorded in the low-income Dar es Salaam-based consumers' price index) during most of the Second Five-Year Plan period the main force behind the general increase in consumer prices. Supply problems in their own right were therefore important in explaining the nature of the country's monetary problems. Furthermore, available evidence seems to suggest that the most important factor explaining changes in the price level during 1971-73 was imported cost-inflation.[1]

The conclusion following from the above considerations is simply that a development oriented monetary and credit policy, even within the broad framework of financial planning cannot remain at the level of aggregate demand management; the structural constraints of the economy must be recognised. This recognition and the formulation of appropriate policies are necessary for successful monetary management in an underdeveloped but developing country.

The second weakness of the two studies is their failure to critically assess the role of the banking system in the urgent economic transformation needs of Tanzania. To what extent is the banking system reinforcing external economic dependence of the country, for instance, by concentrating its medium and long term finances in traditional export activities and therefore leading to the loss of potential growth through declining exchange values in international trade? To what extent has bank credit helped rural non-agricultural activities to increase employment, income, and the expansion of the domestic market? Has industrial credit policy been such as to encourage the use of local materials and the development of indigenous and self-sustaining growth or been biased in favour of import-substituting, import-intensive and low employment-creating industrialisation? How far has the banking system progressed in financing socialist ventures and contributed to the narrowing down of rural and regional differentials in incomes and wealth ? One could go on asking similar questions.

Although we are only too aware that these issues transcend the powers within which a given financial institution is likely to operate, it is necessary (because of the growing importance of these financial institutions in allocating resources in the modern sector) for the banking system and the planning authorities to be at the forefront in raising these key questions in the economics of underdevelopment and socialist transformation, and in attempting some solutions.

A related issue which is treated uncomfortably lightly in the texts is the determination and role of the interest rate. The questions as to what the rate of interest should reflect, and how it should be used are not discussed. Although one does not expect a theory of interest rate from this type of work, the issue is too important to be treated purely from an institutional point of view.

Finally, the question of financial planning which is taken up explicitly by Caselli in a separate chapter is not given a theoretical frame within which the description and assessment of past performance (which occupy most of the chapter) could have been more rigorously treated. Since financial planning represents the latest approach in the development of the country's monetary management, and since this technique is a logical consequence of socialist planning, the formulation of a theoretical framework incorporating the relevant major variables and appropriate institutional approaches could have been an important contribution.

FOOTNOTES:

1 For further discussion of these issues see D.G. Rwegasira, "Inflation and the Structure of the Tanzanian Economy" (Economic Research Bureau Paper 76.9 University of Dar es Salaam, 1976).

OTHER REFERENCES:

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