

Book Review

M. Ashraf Janjua, *History of the State Bank of Pakistan*, Volume 111 (1977-88), Karachi, State Bank of Pakistan, 2003, pp. 790, Price: Rs.750 (US\$30).

If ever a history of development of institutions in Pakistan is written, the State Bank of Pakistan will occupy a central place in it. Of course the State Bank has a pivotal position in economic policy formulation and implementation in the country. Furthermore, the institution was founded and its basic processes laid down by men of integrity and vision and despite attempts at some stages of its evolution to denude and make it serve lesser purposes, the State Bank has managed to retain the dynamism and professionalism of its original wisdom. It is also worthwhile to note that the State Bank is probably the only institution to compile a well documented and comprehensive study of its evolution and performance "in the context of the changing political, institutional and economic milieu", as the State Bank governor points out in the foreword of the volume under review. The future historian of institutional development in Pakistan could not have asked for more from the premier institution of the country.

The State Bank was set up in 1948 under conditions by no means ideal for creating new institutions and helpful to their steady evolution. There was a huge void in the financial sector as a result of the widespread riots during the partition days and migration of the non-Muslim communities who dominated not only the financial institutions, but also business and whatever little existed by way of industry in Pakistan. No wonder that the State Bank was called upon to concentrate upon both the core and non-core functions in a larger, and at times different way from that in which a central bank of any other developing country does.

All this has been written about in the earlier two volumes i.e. Volume I (1948-60) and Volume II (1961-77). Volume III under review covers the period 1977-88 but it seems the author (and the editorial board) found it necessary that in the interest of consistency of analysis, areas such as monetary policy and credit management, and regulatory framework for banks, need to be re-examined for the former going back to 1972 and for the latter all the way back to 1948. A whole new chapter on "exchange rate arrangements, management of reserves and related areas" has been added with the reference period starting with 1948. The coverage of a number of other matters e.g. prudential regulations, money and capital market etc. also goes back to 1972.

This has enabled the author to present a comprehensive view of the role and functions of the State Bank including the traditional functions as banker to the government, guardian of the financial sector, banker to the commercial banks, lender of the last resort, management of foreign exchange reserves, currency issue, regulation of foreign exchange markets and the determination of exchange rate of the rupee within an exchange rate regime. But the most dynamic part of such functions, called the "core" functions, is the management of monetary policy within the macro-economic management of the economy aimed at sustaining price stability.

"Non-core" functions, on the other hand, are no less important even if these are defined as "optional". The responsibilities relate to such critical areas as development of financial infrastructure, clearing payments and settlement payments, development legal framework, economic research, collection of monetary, financial and balance of payments data, interaction with international financial institutions such as the IMF, monitoring of the financial system and indeed the entire economy since a central bank is also expected to perform the functions of advisor to the government. And this even if governments in Pakistan have a tendency to play down such a role. One particular aspect of the functioning of the State Bank, and its ability to restrain any adventurism in economic management, is its relationship with the government.

The book highlights the nature of such a relationship within the context of the State Bank's monetary management to show how it is combined with other economic policies (of the government) so as to help realise the broad economic objectives of the country. Monetary policy thus has to be coordinated with other economic policies in a balanced way. The State Bank's main responsibility is financial stability i.e. price stability including competitiveness of the rupee in the international market and to ensure the soundness of the financial system.

The book stresses the point that the realisation of national economic goals "will be in jeopardy if monetary and credit policies were made to carry the burden of any other policy".

The State Bank managed to live with the finance ministry (representing the government) amicably for quite some time but the inevitable clash came after the nationalisation programme of the Peoples Party in the early seventies culminating in the takeover of the State Bank's shares held by the general public (thus effectively "nationalising" the State Bank) in 1974. The bank's Board of Directors underwent changes in line with the changes in the status of the bank. The Board lost its independent

voice since all the members were now nominees of the government. No advice was sought by the government from the bank before taking such drastic steps that changed the shape of the economy.

The State Bank lost much of its autonomy and indeed "officials of the Ministry of Finance treated the State Bank more or less like a subordinate office of the Ministry" as the book reports with remarkable candidness. The government and the State Bank were unable to agree with each other's viewpoint on bank borrowing for budgetary support, large size of fiscal deficit, accumulation of commodity operations, financial facility, bank loans to public sector enterprises, and public debt management. A number of other developments led to the curtailment of the authority of the State Bank and the Finance Ministry "effectively took over the functions of the State Bank". Presumably, this trend continued even after the fall of the People's Party regime. The book points out that by the late 1980s, the State Bank as a regulator of monetary policy "was completely marginalized and subservient to the fiscal requirements of the public sector".

This book is in the first place, an excellent history of the State Bank in the sense that it is not just a description of the major events of the institution. The stress is placed on analysis and appraisal which puts it in a more exalted place than the previous two volumes.

But it must be acknowledged that this is also more than a history of the bank. The space, and academic treatment, given to monetary management in the country upgrades this book to a treatise on money and banking, a subject area crying for more and more books and research. The only book on this specialised area is S.A. Meenai's 'Money and Banking in Pakistan'. Now one can include Volume III also which raises the total to two. Is that enough?

The chapter on Islamisation of the Economy needs special mention since it is remarkable in terms of clarity of thought and expression, and also as an excellent summary of the steps taken so far in the direction of Islamisation, and bringing on record some excellent writings on the subject by persons of standing.

The author, Mr. M. Ashraf Janjua was the most appropriate choice for such a task. His long association with the field of economics, central banking and monetary management was invaluable for undertaking this work. He has an easy style of writing which, when combined with his deep knowledge and understanding, could only ensure the outstanding quality of

the end-product. He should do more such work to fill the gap in this vital area of economic policy.

One would expect the next volume bringing the story from 1988 to the present time to be on the shelves soon. Of course a work of such depth takes time, but the readers must be forgiven for their impatience and high expectations for which Volume III alone should be held responsible.

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