Book Review

Mohammad Uzair, *A Study of Bank Deposits in Pakistan* (*1947-1962*). (Karachi: Economic Research Academy, 1964. Pp. 28. Rs. 2.00).

Dr. Uzair's short monograph capably surveys the fundamental changes which occurred in the Pakistan banking system during the first fifteen years of its existence. While most of the monograph is little more than a summary of the published State Bank of Pakistan statistics, it nevertheless provides a useful picture of the immediately visible developments in banking during these years.

Between and around the facts and figures, however, there is a very curious ambivalence. On the one hand, Uzair is impressed with the tremendous growth of bank deposits over 1947-1963; on the other hand, he is disturbed by the inadequacy of efforts by the State Bank and commercial banks to foster the development of banking in Pakistan. This ambivalence arises from Uzair's failure to recognize that the greater use of deposits and the development of the "banking habit" are neither goals of an economy nor important achievements *in themselves*. The subject he never raises, and which he should have raised even though it would have required a much longer monograph, is: *Why* is it desirable that the banking system seek to expand deposits?

A corollary of Uzair's belief that the banking habit must be artificially nurtured is the belief that the "opening of a full-fledged banking office is not an economic proposition" (p. 26) and that appeals other than self-interest must be made to encourage banks to expand their branches. Uzair quotes approvingly State Bank Governor Hasnie's warning that "the State Bank would, as a matter of policy, keep in view the efforts banks make and the success they achieve in attracting fresh deposits" (p. 6); furthermore, the State Bank should not be the only part of government working to encourage the banking habit—Uzair suggests that government salaries be paid in the form of checks (p. 28). Perhaps the kind of expansion which Uzair would consider adequate would require the opening of unprofitable branches but there is no evidence that the numerous branches of private banks which have already been opened are unprofitable—at least to the parent bank. Quite contrary to Uzair's view, I think it possible to argue that the opening of a new bank branch is privately profitable to the bank which opens it though unprofitable to society as a whole—perhaps all that is being achieved by such an act is a redistribution of existing deposits among branches with little or no increase in saving (*i.e.*, abstention from consumption, not savings deposits), or improved allocation of saving into investment.

There are a few places, where Uzair is either confused or apt to leave the reader confused, that warrant attention. One, Uzair argues that the principal determinant of the amount of currency in circulation is the level of government spending and deficit financing while the principal determinant of demand deposits is the level of activity in trade, commerce, and industry (p. 23). While the *initial* impact of deficit financing or of an increased demand for bank loans might (but also might not) be as Uzair proposes, it is very hard to understand why the *final* composition of the enlarged money supply would be affected by the original source of the expansion.

Two, the decline in banks' cash (to deposits) ratio which has occurred almost continually during the period is explained in terms of the greater ability of banks to borrow inter-bank funds and to sell securities (p. 17). There are sufficiently few banks in Pakistan that no individual banker can reasonably believe (as he might in a larger system) that, if an emergency arises in the banking system, banks will be able to acquire funds by borrowing from each other or selling securities to each other (there is no significant market in Pakistan for securities outside of the banking system). The proper explanation of the decline in the cash ratio lies in the bank's ability to use government securities as collateral for borrowing from the State Bank.

And three, Uzair reports that some businessmen maintain time deposits and borrow against the collateral of these deposits "in order to gain some tax advantage" because "though there is a difference between interest received on deposits and interest paid on loans, it is more than compensated by the tax gain due to the deduction of interest cost from income" (p. 9). I cannot conceive of a plausible tax law which would make it profitable to businessmen; the rationale for such behaviour must be more complex than this.

Despite these few omissions and confusions, Uzair's monograph remains a fine brief summary of the changes which have occurred in the Pakistan banking system over this period. The material is accurately compiled and carefully printed; I was disturbed by only a single typographical error—the earning assets-to-deposits ratio of US banks is given as 54 per cent (little more than half the correct figure). It is a review which will prove useful to students and to hurried analysts of the Pakistan monetary structure.

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