Book Notices

Harrod, Sir Roy, *Reforming the World's Money,* St. Martin's Press, New York, 1965, viii + 181 pp., $5.95.

THIS IS A SHORT BOOK that many who are concerned with the performance of the international monetary system, and the possible need to improve it, will consider essential reading. Sir Roy Harrod commands attention by his general reputation, the length of time over which he has been concerned with international finance, his past influence on some official thinking, and the lucidity of his writing. The present book often mobilizes the English language admirably to the author's task.

Harrod characterizes the present situation relating to the creation and management of official international reserves as a "shoestring system." He produces statistical indicators to show that reserves are now considerably lower, compared with world trade, than they were in 1937, whether for the world as a whole or for the world outside the United States. Yet, he feels, the need for reserves can be taken to be higher at present than in the 1930's. The result is a system in which the relatively low level of official reserves is an essential element of the balance of payments adjustment mechanism.

Harrod argues that a quick-working remedy for balance of payments deficit is to be preferred over a slow remedy only where domestic demand inflation is present. Where it is present, responsible countries will deflate, and the "shoestring system" thus serves no useful purpose (a judgment about which advocates of improvements in the adjustment process will often disagree with Harrod). For poorer countries, lack of reserves will frequently lead to import restrictions when demand inflation is the root cause of the problem; but this remedy is likely to make matters worse. Capital restrictions are also undesirable. Where cost-push inflation is the central problem for a deficit country, only devaluation can be fast acting; but the slower acting remedy of an incomes policy is to be preferred as sounder and smoother. The result is a judgment that the "shoestring system," i.e., a gross inadequacy of reserves, is broadly undesirable because of its effect on virtually all classes of imbalance.

The author examines the case for flexible exchange rates as an alternative means to provide for adjustment. He finds that, while the intellectual case is sound for completely free rates, this implies giving up domestic price stability as an objective. But in any event, completely free exchange rates, the author finds, are not practicable in today's world. "A system of flexible exchange rates with official intervention would require no less reserves, and might require more, than a system of fixed exchange rates." Consequently, greater freedom of exchange rates cannot make good the reserve deficiencies which Harrod believes to exist.

Against the advice of what he calls his "invisible mentor," Harrod makes the familiar arguments—familiar to all students of these problems—for a substantial once-for-all increase in the price of gold. He also argues for some improvements in the field of arrangements among central banks for mutual credit accommodation at short term.

Harrod's major suggestions for reform concern the Fund. Briefly they are that:

1. All drawing rights on the Fund should be made automatic.
2. There should be a major once-for-all increase in Fund quotas.
3. There should be regular annual increases in Fund quotas, related to a formula involving the increase in imports in the preceding five years.
4. Fund drawing rights (as enlarged under point 1 above) should be transformed into deposits and be made directly transferable.
5. The Fund should be enabled to lend to members, at its initiative, in amounts outside the members' "deposits" (drawing rights).
6. The reserve currencies should be supported by the Fund in situations where conversions of them were being made into other reserve assets, through arrangements that would not diminish the "deposits" (drawing rights) of these countries.

All these changes would be major; together, they would profoundly alter the size of the Fund, its capacity for action, and the nature of its decision making. Against the background of his own participation in the establishment of the Fund, it is curious that Harrod does not treat these questions, and their relationship to the interests of the major countries participating in the current debate, at greater length. A tendency to underestimate the strength of the interests arrayed against profound alterations in the international monetary system, and to understate the degree to which his proposals involve these, is quite likely to mean that Harrod, for all the interest in his observations, will be regarded by most official participants in the present discussions as out of touch with the scope of possible improvement.

William B. Dale

Leduc, Michel, *Les Institutions Monétaires Africaines: Pays francophones,* A. Pedone, Paris, France, 1965, 397 pp., F 40.

THE FIRST HUNDRED pages of this book are devoted to the history of monetary institutions in the French territories of Africa and Madagascar before independence. The author, who is a Professor in the Faculty of Law and Economics in Dakar, reminds us that in order to understand any monetary system one must know its history. He lays stress on the delicacy of making changes in the field of money "in which sentiment is particularly dangerous." The reader will find it interesting to follow monetary developments in French-speaking Africa (except North Africa) during the past 140 years. The successive descriptions of institutions, beginning with the small colonial banks of issue, through the large commercial banks of issue, which were finally replaced by public institutes of issue, shows the important changes that have taken place in the monetary sphere as a result of the evolution of ideas and sometimes at the dictate of events. The chapter on the development of the French Franc Area contains interesting views on the CFA franc and on changes in the banking and financial structure. On pages 50-52 there is a bibliography on the French Franc Area.

The second part of the book is devoted mainly to the reproduction of texts governing the new monetary institutions (central bank statutes, cooperation agreements with France). These texts, which take up almost 200 pages, are preceded by a very stimulating analysis of the principal organizational aspects. The monetary institutions of West Africa, Equatorial Africa and Cameroon, Mali, Guinea, and the Malagasy Republic are examined in separate chapters. This collection of texts in a single volume is especially useful. One is grateful to the author for having devoted the last part of his book to the presentation and reproduction of texts concerning the monetary institutions in the French territories and departments of Africa (the Comoro Archipelago, French Somaliland, the island of Réunion).

Professor Leduc does not limit himself to analyzing monetary institutions but takes a definite stand on various problems, especially on maintaining the value of the CFA franc and on the dangers of "monetary balkanization." He has not dealt with the operation of monetary institutions; it was not his intention to do so. If one may be permitted to regret this, it is only in the hope that this gap will someday be filled. To persons interested in the problems of Africa and in the evolution of monetary structures, one can only recommend a careful reading of this book.

Jacques Waïtzenegger

Due, John F., *Tax and Economic Development in Tropical Africa,* Massachusetts Institute of Technology Press, Cambridge, Massachusetts, 1963, 172 pp., $6.00.

PROFESSOR DUE'S BOOK is based on a series of lectures given in December 1962 under the auspices of the Harvard Law School. Since then many changes, both fiscal and political, have occurred in former British Africa, other than those which the author has so skillfully inserted in his original text. Thus, the breakup in 1963 of the Central African Federation, the abandonment of moves for an East African Federation, the union of Tanganyika and Zanzibar, the institution of independent currencies and central banks, and the reaction of these changes upon the tax systems (e.g., in Zambia and Malawi) have already given the book a historical aroma. This, no doubt, was the risk the author accepted when he decided to publish his lecture material, and there is an obvious answer to the criticism that the material is now dated.

It is a remarkable tribute to this book that, notwithstanding the rapid pace of change in these African countries over the past three years, not only do the standard dilemmas of underdevelopment outlined in the opening chapter remain with us—more consumption or greater capital creation, government or private enterprise, industry or infrastructure—and, one might add, political popularity or economic integrity—but the conclusions drawn in the final chapter are no less sound merely because the tax structures have changed. Its accuracy of detail (as then current) is exceptional, its realism (to those with practical experience of tax administration in Africa) is laudable; and the only criticism of its readability is that the presentation is sometimes confusing, not only from excessive detail, but from the sentence-by-sentence comparison of differences among the eight countries.

If by nothing else, publication was justified by the sensible conclusions and sound advice implicit in its last chapter on "Tax Policy and Economic Development"; for example, the direction of tax policy which the author considers suitable—exemption from income tax of lower personal incomes and its replacement by the personal tax (or graduated poll tax)—is borne out by experience, with the qualification that a personal tax, to be workable, must have a minimum number of rates.

Unfortunately, the book was published before the opportunity became available for commenting on the Ghana Standard Assessment Act of 1963 or the personal "pay-as-you-earn" tax system introduced in Kenya in the same year—since each provides a solution to administrative problems that are common to many African countries.

While Professor Due's predilection for the U.S. tax system (including automatic data processing) and for land taxation as a practical possibility might be regarded by an old hand from Africa as somewhat excessive, his book represents a most valuable and comprehensive addition to the literature on taxation in underdeveloped countries.

W. M. Wedderspoon

Rosenstein-Rodan, P.N. (Editor), *Pricing and Fiscal Policies, A Study in Method,* Massachusetts Institute of Technology Press, Cambridge, Massachusetts, 1964, 211 pp., $7.50.

THIS VOLUME of studies resulted from work by members of the Indian team of the Center for International Studies, Massachusetts Institute of Technology. Most of the papers are essentially identical to occasional papers written for the consideration of the Indian Planning Commission in the period 1959-61. Although the papers are independent policy papers, they supplement each other quite well and the collection is a useful contribution as a study in method.

The underlying theme of the papers is that if resources are to be allocated efficiently, emphasis has to be given to proper pricing policies. Emphasis, in particular, is directed toward using an appropriate shadow rate of interest (the opportunity cost of capital) in analyzing the capital costs of alternative projects as opposed to an artificial rate of interest institutionally or politically determined. Given the inelastic revenue structure of most less developed countries, the need for adequate pricing policies is a message that should be repeated even *ad nauseam* until a full understanding of the problem emerges. The individual papers in this book are a step in the right direction. Of particular interest to this reader were the papers on transportation pricing policy by Lefeber with Chaudhuri, and on electricity pricing by Harberger and Andreatta.

By their very nature, the papers, and thus the book as well, leave the general reader (compared with the original audience) without a frame of reference, and this is an important shortcoming. In discussing appropriate prices for individual products or services there is no indication as to the extent that these prices or pricing policies diverge from existing prices or pricing policies. Thus, the general reader cannot judge the size of the adjustment recommended. Also, there is little in the way of a post mortem on what policies were subsequently followed, but perhaps this is asking too much.

The papers were written for consideration by the advisors to the decision-makers. It is hoped that the advisors to the decision-makers conveyed to the latter the importance of appropriate pricing policies as clearly as presented in the papers in this book.

Timothy Sweeney

Introduction to the Fund, which appeared in the first issue of *Finance and Development,* is being reprinted in English, French, and Spanish, along with a *Glossary of Fund Terms,* in pamphlet form. It will be sent without charge on receipt of a postcard addressed to The Secretary, International Monetary Fund, 19th and H Streets, N.W., Washington, D.C. 20431. Please indicate language desired.
