A Development Banker from Bengal

Indrajit Mallick

The Indian History Congress, Centre for Studies in Social Sciences, Calcutta

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Introduction

In the context of developing economies, the banking system has historically played a bigger and a more fundamental part than the capital markets in financing industrialization. In the early stages, it has been a combination of the government and the banking system and it is generally recognized now that that the latter has certain advantages in this task.[2] In this context the banker with market power plays a special role. He chooses the degree of risk taking in the industrial economy, the smoothing of income in risky agriculture, and provides local savers with liquid securities. In each important geographical zone the banker with market power is required so that he can take risks in finance with adequate safety cushion and lubricate the wheel of industry and commerce. This market power directly primarily derives from some protection that the financial and monetary authorities bestow on the banking sector (for maintaining stability in the financial sector, and to sustain the power and rent seeking structure of the modern industrial economy.). Two other important reasons are the presence of increasing returns in banking and the asymmetric structure of information in the credit market. However, despite the presence of market power, one must concede, that, without the ability of the banker to guide his bank through initial birth pangs and inherently risky path of its youth, and finally to stabilizing its growth in maturity, one would hardly see banks making their mark over time. Such a role played by the captains of the financial industry is a necessary condition for significant growth in trade and production let alone innovation and technological progress in industry. If the captains cannot play this role, it would completely shut down the scope of development of industry and markets in a poor economy. This special entrepreneurial talent in finance has often been neglected by the development literature and its time to integrate the experience of economic history with

[2] of course, the government has a special role in mobilizing capital as well as directing it's use in LDCs but the attendant risk of misallocation of resources through incentive and information problems of planning and conflict of objectives at the political centres has proved this to be at best a necessary and not a sufficient condition for economic development.

the theory of economic development and the theory of financial intermediation to rectify this sad oversight. In this essay we are going take this interdisciplinary path to study an entrepreneurial banker emerging in Eastern India a few decades before independence and study the dynamics of the story. Before we embark on that ambitious path, one must reflect a little on the nature of entrepreneurship.

Market conditions always leave room for the talented entrepreneur to exploit and even change them at times. The question is whether the entrepreneurial skill is present and what are the preconditions for it's successful exploitation. The acute scarcity of this particular type of skill (as witnessed by the high degree frequency of failures of startups in any industry) with respect to it's demand and the randomness of it's success attributes makes it difficult to construct a theory of entrepreneurial behaviour. To the extent, wealth, attitude and talent permits, some people will be entrepreneurs and there is not much to theorize beyond that (given that the firm has a distinct legal as well as economic identity of its own, it not to be equated with the entrepreneur). In other words one cannot write a textbook on how to be a successful entrepreneur as one could write a theory of optimal managerial behaviour in textbook form. The primary difficulty lies in the fact that entrepreneurship is an art that have multidimensional behavioural requirements and complex dynamics involved in it's implementation and planning which no single academic discipline can handle alone. It's a talent at the end of the day and you either have it or do not. However, one can atleast lay down the conditions under which the probability of entrepreneurial experiments may increase at certain stages of socio-economic developments and the conditions under which such experiments may produce a critical mass of successful and active entrepreneurs with significant impact on technological innovation, growth, trade and risk bearing. Historians have long recognized that Social and intellectual revolution, political protection and economic freedom typically throws up a number of entrepreneurs as does the influence of family business or education. Given these conditions, the (potential) entrepreneur looks at a product, market and industry and asks: " is there another, more efficient way of doing things here?" The ability to ask a provocative question is positively correlated with the capability to answer it and implement the solution in practice. The purpose of this essay is to see a financial entrepreneur from this point of view while keeping in mind the challenges faced in financial entrepreneurship at a critical stage of development of the Indian economy.

India in the early 20th century faced the task of financial development as a necessary step to mobilize savings at a significantly higher rate and channelling savings to investment, to allocate resources efficiently across projects and to share risks in economic activity in an efficient manner. Though the Government was seen as the indisputable leading player as well as the maker of the rules of the game in the financial landscape, it still had to rely on a system of efficient banking system which was decentralized to a large extent. The general challenge for these banks were to carve out their niche in private sector and play their required part in government finance through the investment in treasury securities of different maturities and risks. They also had to coexist with the informal financial sector which still dominated agriculture finance and rural-urban commerce. Regional idiosyncracies made the development of banks more specifically tied up with the regional comparative advantages and relative scarcities of economic goods and services. One need not recount the economic and financial history from the regional perspectives in any significant detail. However, one comment is pertinent. Western and Southern India have had the major share of pioneering individuals in finance and with the increasing industrial importance of theses regions, these individuals played a significant role in terms of command of resources and growth in their local economies and further strengthened growth in these regions. The Eastern part, on the other hand saw trade and industry diminish in importance relative to the former regions since the latter half of the 20th century and the trend became marked in the last three decades. Financing therefore, was more of a challenge to the upcoming bankers in places like Bengal, Bihar, Orissa and Assam despite some traditional business like tea finance, coal finance, financing of chemicals, potteries etc. being there. Therefore when comparing the financial industry leaders of different regions, this should be kept in mind.[3] To what the extent the relative

[3] It is true that banks could in principle hold diversified portfolios which cut across regional boundaries but the socioeconomic barriers to branching in this land of diversity had ensured that there would be limits to regional financial integration. Some communities like the

lack of financial entrepreneurs in the Eastern part explains a part of the relative decline remains an interesting question. In this paper we shall focus on an individual who played an important part in the development of Banking in India and especially Eastern and North Eastern India, and had a significant impact on the socio-economic development of the latter region. The protagonist of our story is Shree Bata Krishna Dutt, a banker from Bengal, whose life spanned a substantive part of this century. There were three major contributions which makes it imperative to study his life and achievements: the first and foremost being that he was instrumental in building up a large bank which served the various economic needs of the region in it's development phase; the second being that he was one of the key personalities who was instrumental in the development of banking as an institution during the de-colonization of India's financial system; and third, he was one of the pioneers of the idea of the social and developmental role of banking in the country.

Before we begin, an attempt to locate him in the socio-cultural space of early 20th century history is perhaps necessary.

The emergence of entrepreneurs like B.K.Dutt was no accident. With *swadeshi*, the Bengali *bhadrolok* was inspired to take to business and industry with a different justification. Indigenous industry was required to fight the British rulers in commercial terms. Further, this was an era of emerging modernity in India. To the entrepreneurs of this era, it was a matter of marrying individual enterprise, education and scientificity with money matters. This coincided with the Bengal Renaissance, which saw towering personalities who were not only superior intellects but also socio-economic visionaries who could start and build enterprises of their own. P.C. Ray of the Bengal Chemicals was a teacher of chemistry and an experimental scientist; as was Jogesh Chandra Ghosh of Sadhana Aushadhalay, while Ramesh Sen who set up a factory for making socks and vests in Mymensingh was a lawyer. By 1907-8, the emphasis of nationalist enterprise in

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Marwaries have defied with considerable success these barriers but in general community migration and dispersion throughout the country have been an exception rather than a rule. Banks therefore, have been by and large regional or community banks, much to the lamentation of the

Bengal had shifted from industrial production to that of commercial services like banking and insurance. The need for formal indigenous institutions, which could finance trade and commerce of Indian industry, was increasingly felt and the new financial entrepreneurs began to take advantage of the opportunity with a sense of social responsibility. Bengal, again, was leading by example, with eminent men like Dwarakanath Tagore going into banking and reputed lawyers in different towns trying to make finance a more formal institution with regard to agricultural commerce and small scale industry.

Our story begins in the town of Comilla in Bangladesh. Bata Krishna Dutt was born in Comilla in 1910. "Comilla was an interesting location - on the one hand, adjacent to the `tribal' interiors of Tripura, on the other hand, to the sprawling tea estates in North Bengal and Assam. In a way, a less structured society, which could boast of cultural icons like ustad Alauddin Khan, Himanshu Datta, , Sachin Deb Burman and others. This was an area which in 1930-31 would become famous for its revolutionary terrorist movement. "[4] This was also known as an area of `banks and tanks', financial entrepreneurs and builders of Swadeshi institutions. B.K.Dutt's father Narendra was a social reformer and entrepreneur who took to development banking in 1914 by giving up his lucrative law practice. These qualities moulded the character of most of his children, of whom B.K.Dutt was the eldest. After completing his studies and on return to Comilla, B.K.Dutt joined the bank to work as a trainee.

I : Building up the Institution

Within a few weeks after B.K.Dutt's joining Comilla Banking Corporation, Narendra told him that if he did not like to work with his bank, he could have a bank of his own and prove that he could make it. It was clear that Narendra had confidence in the ability of his son and wanted him to be as independent as he was when he started Comilla banking Corporation. In 1930, the son took up the defunct Comilla Rice and Oil Mills Ltd. (a

neoclassical economist and the euphoria of the sociologist.

[4] B.K. Dutt (1994)

company owned by his father) and converted it into the New Standard Bank of India Ltd. The initial paid up capital was about Rs.thirty thousand. Dutt ran his bank with very little overheads like the traditional loan companies. This is an exception to the rule that you need quite a bit of own capital to start a financial institution. But in this case it was Dutt's reputational capital and goodwill his family enjoyed that allowed him cross the entry barrier. The bank housed in Mahesh Bhattacharya's garage, from where also ran the Mantala Tea Co., managed by his father's company. Between eight and ten in the morning, the Bank would finish its office work in the garage, and then Datta and his co-workers would travel around on their bicycles, as a veritable mobile bank. They would then set up shop on the balcony of the bar-library at the district court, servicing the financial transactions of the numerous lawyers, clients, peasants, *jotedar*-s and *talukdar*-s who would regularly visit the court from all over the district. Soon the chief justice allowed him to set up an iron shed for his bank within the very court premises. As its capital increased gradually, the New Standard bank also included tea estates in the list of its customers. Soon the Comilla Banking Corporation and New Standard bank were doing business in Calcutta. By 1946 it became obvious that the stage had come where it was mutually profitable for the two banks to merge and at Governor Deshmukh's suggestion, New Standard transferred it's assets to Comilla banking Corporation. The institution of interbank deposits creates the necessity of cooperation even among the most bitter competitors in banking and Mr Dutt was quick to leverage this to secure cooperation from all the banks which were bankers to his bank.

Economic theory explains the relative scarcity of entrepreneurs especially in less developed countries by large setup costs of business and imperfect capital markets. But financial entrepreneurs have the advantage that they can rely mainly on deposits. Certainly this seems to be the case here. However there arises a problem with an evolution based on high deposit to own capital-ratio : with too little own capital and too much of other people's money, the banker becomes prone to taking excessive risks. In fact, this is precisely what happened in Bengal in the early 20th Century[5]. But our

[5] see for example, Amiya bagchi (1987),and Prathama Bannerjee (2000)

protagonist exhibited the commitment, discipline, and banker's prudence and ensured that his bank would follow a different path. Here we have history and future both playing a role. The expectations and ambitions about the future led to a certain pattern of restrained behaviour and on the other hand the socio-cultural qualities embedded in him by historical circumstances reinforced the behaviour pattern.

The banking crisis of 1946-1950 brought the large banks of Bengal like Comilla Union and Bengal Central in touch with the Dutts. They started discussing on a merger which finally took place in 1950 thus creating United bank of India (UBI), a large bank which could cater the whole of the Eastern region. At that time there was hardly any precedent in Indian banking as far as large scale mergers were concerned - thorny legal and financial problems aside, there was the unenviable task of negotiating with different stakeholders including other banks who were to be the potential partners, conducting due diligence and administering and managing the process of change. The fact that the merger was successful is a sufficient testimony of Dutt's growing skills as a banker. Not only did he benefit his bank and the depositor community but he also created a vital precedence for a spate of amalgamations that followed after independence. The image of the large bank and the collective strength of the most influential bankers getting together ensured that bankruns stopped and a severe confidence crisis on a much larger scale was thus averted.

The next step was to create enough reserves and capital, restructure, and expand throughout the country to diversify against region specific risks. In all this B.K.Dutt showed unmatched dexterity and both deposits and advances grew at a fast rate of about 20%. The domination of UBI in the East and the North East was prominent. Also, Dutt's expertise in tea enabled the bank to become specialized in tea financing and to be a lead banker in this sector. Yet at the same time he carefully chose a well diversified basket which consisted of coal accounts, wholesale trade, cotton textiles etc. He kept close watch over the industries and would prevent problems developing by credit rationing whenever he foresaw demand and ensuing cashflow problems in those industries.

However, what was most impressive was how he enabled UBI to become a prominent bank at the country level starting from a humble stature of a regional bank. Various schemes were adopted by Dutt to penetrate the national market. His advisor Mr Laughland set up a scheme for lending money to Multani bankers.[6] UBI took to this not only because it was a very good business without any risk but also because it was a useful system to lend money to small businessmen. In the matter of bill rediscounting facility provided by the Reserve bank of India to banks, the officials of Reserve bank pointed out that UBI did have large and well known customers on it's books. Therefore special efforts were initiated by Mr Dutt to get large and well known accounts in Madras, Bombay, Ahmedabad and elsewhere with great success. In Bombay the relationship of Mr Dutt's growing influence in various financial committees set up by the government led to his interactions with names like A.D. Shroff and Morarji Vaidya (introduced by a local businessman to Mr Dutt) which, in turn, helped UBI in securing, for the first time, ties with the Tata and Birla group. During the days of the Shroff Committee, on one of Mr Dutt's visits to Bombay, for the first time UBI made a loan to a textile unit belonging to the Tata group. Vaidya also transferred some other companies to Voltas (a Tata group company) and UBI being a banker to these companies, relation with the Tatas was further strengthened. United Bank went to Ahmedabad with the good wishes of B.K.Shah of New India insurance Company Limited. B.K. Dutt and his managers got to know Kasturbhai, Arvindbhai, Rohitbhai and others that brought in a good number of accounts. Subsequently Mr Dutt became a director of Industrial Credit and Investment Corporaion of India (ICICI) at the instance of Kasturbhai and K.L.Mitah and came close M.T. Parekh, the then general manager of ICICI. UBI had a branch in Madras which was the only one in the South. It was not bringing in substantial influence and

[6] The phrase came to be associated with a number of families which originally hailed from Multan in Sind but subsequently settled in Bombay. They had devised their own system of lending money with controlled risk and without any security. Generally they lent Rs 5000 to a party, though a number of Multani bankers could together lend a few lakhs of rupees to a borrower. These bills were discounted by the Imperial Bank and other banks.

business and Mr Dutt was thinking of closing it. At this time, he met C.M. Kothari of Madras who opposed the idea of closure and offered to make Mr Dutt known to the business community in Madras. Although his efforts did not take UBI far enough, further help was obtained from C.R. Srinivasan, a director of the reserve Bank who liked Mr Dutt and organised a local committee of the bank in Madras, comprising of Kasturi Srinivasan of Hindu, T.S. Santhanam of TVS and others. Thus UBI rose in status and acquired some influence in the city. Its relation with TVS group has persisted and grown over time. In Delhi Dutt got good connection all over. Lala Hansraj as chairman of the local committee brought influence and business. Utam Singh Dugal developed close relationship with bank. At this time Mr Dutt developed a relationship with Mr M.S.Oberoi and helped to build up his hotel chain. This was the beginning of a long standing relationship with a very good industrial client and brought UBI continuous business. Mr Dutt was very helpful to the Oberoi group and personaly stood by Mr Oberoi in many difficult situations.

In Calcutta Dutt demonstrated the wisdom of forming long term relationships with innovative entrepreneurs who were beginning to get a fair market share. It must be mentioned that substantial discretion is required in maintaining and managing a relationship with a big borrower. Dutt used this discretionary and flexibility approach in lending with good effect. Soon his borrowers were unwilling to switch to competitors even at advantageous terms. Closeness of ties allowed Dutt to cross sell other products to borrowers. Further, the information generated from relationship banking and the trust and reputation factors kept adverse selection and moral hazard problems at bay.[7] Bengal Chemical was a pioneer industry financed by UBI. Bengal Enamel, East India Pharmaceuticals, Bengal Immunity were some others. Close relationship developed with East India Pharmaceuticals which was founded by Ashok Kumar Sen. Hirendra Nath Dutta Gupta, Sen's brother in law, knew Batakrishna Dutt and this started the relationship. Initially the firm had no overdraft requirements but later the reliance on the bank increased and the bank became the lead banker to the firm. In media the bank financed Saraswati Press and later the Anandabazar group.

[7] See Boot and Thakor(2000)

Foundries of Howrah and cold storage units (especially for potato cultivation) were financed. The big industrial groups also got their due share of attention. Oberoi, Goenka, Badri Poddar etc. were some of the renowned clients. B.K.Dutt specially mentions in his diary his ties with the Oberoi group : "M. S. Oberoi and his hotel chain were built with UBI assistance and the personal assistance of the author : I personally stood by him in difficult situations. He is a very capable hotelier with international status." Mr S.B.Roy of Oberoi Group used to handle transactions with UBI. He remembers the beginning of this important relationship: "It was the year 1962 when we approached UBI and got Rs 5 lake sanctioned from the comptroller of advances Rajenbabu." Initially the group had hotels in Calcutta and Srinagar. Later they started to build hotels in other cities as well and UBI used to help with construction finance. According to S.B.Roy, Mr B.K.Dutt had a weakness for Raibahadur M.S.Oberoi because like his father N.C.Dutta, Raibahadur was a self made man and he reminded him of his father. He carefully nurtured the relationship and soon all banking business requirements of the group came to be handled exclusively by UBI. UBI top management also decided to finance engineering firms which looked poised for growth due to the emphasis of the Five Year plans on heavy industry. After the merger, Martin Burn became a client. The president of Martin Burn came in the bank's board. This enhanced the image of the bank substantially and was an event worth celebrating recalls Ranjit Dutta[8]. IISCO was another firm which had UBI as one of it's bankers.

II : Developing Banking as an Institution

No doubt Dutt became the role model to emulate for all banking entrepreneurs in Bengal in the post-Independence period. But more important was his contributions to setting proper rules of the game for the development of banking in India. The three areas he focused was on necessary banking legislation, mechanisms to avoid the banking crisis and structural changes in banking.

[8] Interview with the author

He argued for legislation enabling speedy and easy mergers between troubled banks as early as 1946. Section 44A of the Banking Companies Act dates from this time. B.K.Dutt started his fight for a special provision in the law of for merger of banks. The section 44A of the Banking Companies Act was inserted in the statute on banking, making it possible for the governor to sign the order of the merger without reference to the court or winding up of the bank. Interestingly, the United Bank of India was the first bank under the merger provision.

On avoiding crisis he proposed mergers and deposit insurance. Mergers had to be initiated by the banks themselves though the Law and the State would play an important role. But deposit insurance required a change in the regulatory policy. Anticipating that it would not come about easily he took recourse to merger during the banking panic. However he considered deposit insurance a superior mechanism than mergers. Dutt emphasized that many of the banks which failed during this time were not unviable in size and structure - some could maintain a liquidity ratio of over 55%, some had only 35% of their capital locked in advances and some could in fact pay out 70% of their liabilities before they closed. Again using the hindsight drawn from contemporary theory of banking, we know today that crisis would not have beset these banks had deposit insurance been there to counter the negative effects of ill founded rumours. In the absence of deposit insurance, bank runs became self fulfilling prophecies[9] since when all depositors simultaneously runs on a bank then under a fractional reserve system of banking, the bank is bound to go insolvent though it is not bankrupt. Moreover, the history of banking panics throughout the World testifies to the fact that when bad banks suspend payments they exert a negative externality on the otherwise viable ones by spreading false rumours and causing insolvency. Therefore deposit insurance was necessary to safeguard against these dangers. Conservatives might argue that deposit insurance can lead to complacency and excessive risk taking by banks unless the insurance premia can be suitably adjusted to risk (a difficult job for the insuring agency), as the recent financial crises reveal. It is difficult to infer whether Dutt realized that there

[9] Diamond and Dybvig (1983)

was this "moral hazard" problem with the insurance concept.[10] He argued that amalgamation might lead to a great rise in operational costs, without engendering the expected economies of scale (Here too we find Dutt on the right side of a very contemporary debate in banking[11]). But above everything, amalgamation eliminated local competition and created monopolies, which harmed the public because banking was a service that should thrive in context of competition. According to Dutt, amalgamation as a method gained legitimacy in India, because of its success in the United Kingdom. "Very few realised how different the institutional contexts were in the two nations. In U.K., most mergers happened because banking houses were sold in the market to corporate buyers, the banks being mostly family or partnership businesses which could not anyway have operated in perpetuity like joint-stock banks with limited liability, as was the case in India. In the United States, however, when more than 6000 banks crashed in 1931, it was not followed by amalgamation but other methods like insurance. And in Germany in recent years, banking consolidation had been carried out not through mergers but through an actual division of larger banks into a number of smaller banks, which were supposed to assist regional development."[12] Amalgamating banks which had become weak and vulnerable was not a sufficient condition for restoring the health of the financial system unless an adequate supply and distribution of fresh capital was forthcoming. But which shareholder would trust banks with capital in the middle of a financial crisis? If the problem was of trust and confidence then there was only one proper remedy and that was Deposit Insurance. To the extent that this institutional innovation took time to come into fruition, mergers would be a weak substituting principle and it was a viable strategy as long as recourse to it was taken before a serious shortfall of capital and liquid reserves had developed. The individual banks who formed UBI were lucky that their management reacted quickly to the bank runs and pooled enough surviving capital to make their depositors confident. This stopped the run on them but this was an exception in those trying circumstances and not a rule. Dutt's appeal to the Policy Makers to insure bank deposits thus had impeccable logic and a keen historical insight which would make many modern finance theorists and economic historians proud.

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[10] Stiglitz and Weiss (1981)
[11] Berger et al (2000)

However, those belonging to the school of thought started by Bagehot[13] would not agree. Saving imprudent bankers would be a mistake which would make history repeat itself, they would argue. Modern iconoclasts in the world of theoretical finance like Douglas Gale and Franklin Allen would see optimality in bank runs[14] and tell the policy makers to allow runs because thing "would get worse otherwise" (a concept foreign to even a free marketeer like Milton Friedman[15]). Fortunately for the banker on the street, there exist some counter arguments on these issues. Since differentiating between the prudent and not so prudent ones would not be a favourite job for the hard pressed monetary authorities; their real dilemma would be whether to save all at the cost of keeping a few irresponsible ones alive or allow some of the risk averse but unfortunate ones to die in order to keep banking society free of risk lovers. Dutt, for one, pointed out, that closure of banks en masse would not only cause a gaping lack of credit services in all the regions, but also cause widespread unemployment, disrupt local economic activities, including trade in agricultural produce, and ultimately have a large effect on all the sectors of the Indian economy. On the welfare aspect of crises one can argue that liquidation of banks would be costly to society when the problem is not with 'fundamentals' [16] but with "state of the mind of the depositors". One would be inclined to think that this was the reason why Dutt also argued for a Rehabilitation Finance Corporation as an institution complementing the Deposit Insurance Scheme.

On the structural aspect of banking Dutt argued for the opening of small `unit banks' all over the country, even though some argued that, in face of the popular idea of the time of reduction in the number of banks through amalgamation, such unit banks were `primitive' institutions. Dutt argued that, in place of the vertical expansion of banking institutions, operating on centralized norms and terms, a horizontal expansion could make banking as

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[12] Prathama Bannerjee (2000)
[13] Bagehot(1873)
[14] Allen and Gale (1999)
[15] see Friedman and Schwartz(1963)
[16] conditions under which, as long as depositors do not all simultaneously run on the banks, every financial claim is paid, is known as a situation of sound fundamentals in banking industry

an institution sensitive to local and specific industrial and employment needs. In fact, at the insistence of the Bengal National Chamber of commerce, Dutt wrote up a detailed scheme for the system of such unit banks, which was submitted to the Rural Banking Enquiry Committee appointed by the government of India in November, 1949 under the chairmanship of Shri Purushotamdas Thakurdas. It was a novel document, which carefully analyzed the agency problems that can arise in branch banking, and how rural unit banks would be a superior alternative. He also painstakingly showed how small unit banks had the natural advantage in mobilizing resources for investment at a faster rate without having to take excessive risks and how a little community participation could make them viable organizations. However his plan was silent on allowing competition between banks which branching permits and which raises the quality of banking service. Surely he could learn a Smithian lesson[17] or two on this issue but having said that one must not forget to add that many banks have retained their local and regional nature despite free interstate banking in today's democracies.

III : Ideas on social and development role of banks

Within a decade or so after independence, it was becoming clear that if anything, the banking sector was becoming more and more constricted, in comparison to the early years of small, provincial banks and hardly creating the spread of banking habits that would be necessary in the context of any reasonable social welfare function. It was widely felt that certain dominant sectors of the economy, with their presence ensured in the board of directors of the banking institutions, were canalising much of the resources towards themselves, at the cost of agriculture and small scale industry. Dutt was quick to point out the inadequacies of the system and regretted the question of the general expansion of banking resources still remained inadequately addressed in his[Chairman's speech in UBI in 1968. In another speech, Dutt pointed out that at the end of 1968, the cities of Bombay, Calcutta, Madras and Ahmedabad contributed deposits to the tune of Rs.1597 crores, while their share in bank credit amounted to Rs.1804 crores. If account

[17] see Douglas Gale(1993)

was taken of the liquidity requirements against deposits, the imbalance between advances and deposits assumed further significance. On the other hand, while the non-metropolitan areas contributed deposits to the tune of Rs.2451 crores, the bank advances amounted to only Rs.1110 crores. Clearly resources were being diverted from non-metropolitan centres to metropolitan centres. Distributive trade and instalment credit were being ignored in the countryside. All this implied that the state had to ensure an equitable and growth oriented expansion of banking services.

Let's go back to theory again for a little while. Neoclassical economic theory implicitly implies that banks play an egalitarian role by allowing people to save and obtain a reasonable rate of return and thus accumulate wealth[18], recent theoretical models of income distribution based on information economics have highlighted the fact that credit markets are typically imperfect and consequently convergence to equality may be extremely slow and poverty traps might still persist.[19] Recent developments in theory of development of financial markets has argued, on the other hand, that with an increase in aggregate savings the setup costs of starting a financial intermediary could be met by a sufficient number of entrepreneurs which would enable efficient risk bearing to take place through financial intermediaries. This in turn would lead to greater income and a lower level of income inequality.[20]. Thus savings affects the growth pattern of an economy in this way. But lifting savings requires an autonomous mechanism before banks can develop adequately. This is where economic visions of the policy maker comes into play. In Dutt's mind the mechanism was the socialisation of banks. The fundamental need, he pointed out, is that each bank’s future should directly be tied up with the economic development of a zone in which it will operate. It would then be under a structural pressure to leave no stone unturned to develop the zone of it’s operation, insofar as imagination and appropriate objectivity, along with the provision of finance, can achieve such development. It is therefore necessary to bring about a system which will confine the area of operation of a bank to a designated banking zone. If this could not be done then forced nationalization was the only option in his mind.

[18] Stiglitz (Econometrica 1969)
[19] Bannerjee and Newman(1991)

This was Dutt's mission and vision statement in a nutshell. There is something of Gandhian ideas of development being reflected here and also has a relation with the community participation literature developing in economics and sociology in light of recent experience of LDCs. From the modern viewpoint of information economics one can say that usage of local resources where information is better available creates efficiency gains but there may be limits to it. His ideas on community participation in banking and group lending schemes and emphasis on small borrowers are based on equity considerations rather than efficiency gains. What is missing is the appreciation of the free rider problem which pervades provision of public goods. Perhaps one cannot blame Dutt on this issue since those were the days of valour and self sacrifice. Sadly things have changed and some of the ideas can only be called unrealistic ideals in today's maximizing and opportunistic society.

Personally he was against excessive regulation and intervention by Government or RBI in banking matters but neither did he subscribe to the profit maximizing role of the banker. He and his senior managers at UBI persistently argued for the business community to take up social responsibilities, rather than for asking the state to take over the running and restructuring of the economy. While they often differed with certain of the government policies regarding banking, they at same time campaigned with entrepreneurs to develop a certain social attitude if they wished to prevent a direct nationalisation of banking institutions.

The mix of the shrewd and mature capitalist and the eutopian socialist in Dutt is perhaps not too surprising in light of the contradictions inherent between a free enterprise system and social responsibility. What is important is how he created a coherent and novel synthesis out of these contradictions.

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[20] Greenwood and Jovanovich (1990)

IV : Conclusion

B.K.Dutt was being shaped by the economic compulsions and aspirations of life as well as the spirit of idealism shaped by our culture and national history. To what extent he represented the average banker of his period may be debated. Perhaps he was too progressive and too special to be a representative example and it is also precisely why he had a large influence on the banking policy, financial community and his clients.

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