As I pointed out in Chapter 1, my aim in this work is to develop an historical analysis of the Indian corporate economy. In particular, I wish to assess to what extent the specificity of Indian corporate capitalism can be used to explain the lack of sustained industrial growth, a phenomena that seems to plague India even today. Broadly speaking, two sets of reasons have been considered in the mainstream literature on development, particularly in the context of liberalisation and structural adjustment: the problems of labour productivity and of firm-level or corporate profitability. My focus here will be the latter, i.e., the problem of corporate profitability. Specifically, I will try to assess whether and to what extent low corporate profitability may have hindered industrial development in India. In this chapter I will examine these questions in the context of the colonial period, spanning roughly the years between 1914–1947.

Several arguments have been advanced in order to explain the absence of an industrial breakthrough during this period, despite the presence of a fairly well-developed industrial bourgeoisie quite early on. These arguments can be broadly categorised as follows:

- dualistic division of the economic space based on a racial barrier imposed by colonial rule (Bagchi, 1970; Ray, 1994)
- factionalisation amongst the capitalist class (Markovitz, 1985; Kochanek, 1974)
- absence of the entrepreneurial spirit pre-determined by primordial factors such as religion and community (Lal, 1988)
• ‘innate mercantilism’, manifest in the reluctance to undertake industrial ventures since trading activities yielded greater profits (Morris, 1987)\(^4\)
• essentially comprador nature of the bourgeoisie (Desai, 1967).\(^5\)

I wish to suggest here that an alternative theory can be proposed, that draws upon and attempts to extend the arguments advanced by Bagchi (1970) and Ray (1994). The primary thrust of this line of reasoning can be summarised as follows:

Thus foreign control of industry in India brought neither technical knowledge to the Indians... nor did it bring any extraordinary ability to adjust to changing conditions. It can be argued that by increasing the reverse flow of dividends from India to the West and by obstructing the emergence of Indians into positions of leadership in industry, it may even have increased the degree of economic backwardness of India and aggravated her problems of adjustment to a world of aggressive capitalism.

(Bagchi, 1992:196)

In his disaggregated regional analysis of the development of indigenous Indian entrepreneurship, Bagchi goes on to show that Indian businesses did emerge successfully in areas where the penetration of British capital was less direct or slower to evolve. In fact, there is a significant body of scholarly work that documents the rise of Indian entrepreneurs despite the obvious racial and colonial barriers that confronted them (Chandra, 1982; Mukherjee and Mukherjee, 1988). Especially since 1914, Indian businessmen systematically entered the economic space dominated by Europeans, and the general record of growth and expansion of corporations during that period was quite remarkable. However, the nature of corporate expansion was not based on a sustained cycle of corporate savings and re-investment of the type that could satisfy any of the conditions I outlined in Chapter 2. To recapitulate briefly, these were:

• a sustained increase in assets, incomes and skills of workers
• a gradual restructuring of the semi-feudal conditions and relationships under which labour is initially employed and
• a progressive democratisation of the process of production.

Rather, in this structure of accumulation, corporate wealth was distributed very unevenly amongst three societal groups: (1) the investing