

Caste and Economic Discrimination: Causes, Consequences and Remedies

This paper provides a theoretical introduction to the study of discrimination with particular reference to the caste system. It sets the stage for the four empirical papers that follow, by highlighting the ways in which caste persists as a system of inequality that burdens the Indian economy with inefficiencies in the allocation of labour and other critical resources, reducing the full development of human capital in society. Far from disappearing as the economy modernises, discrimination remains a problem which, for reasons outlined here, is not amenable to self correction, but rather requires interventionist policies to remedy.

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The *Economist* magazine recently observed, “There is no evidence that [Indian] companies discriminate against [the lower castes]”, and argued that the relegation of low caste Indians to the bottom of the social structure is a function not of discrimination in the private sector but of the actions of a different culprit altogether: “government, and the rotten educational system it has created” (‘Business and Caste in India: With Reservations’, October 6, 2007).

That the Indian educational system has a long way to go to achieve caste, class and regional parity is beyond dispute. Yet we should not move so fast in declaring the private sector free of discrimination, nor should we assume that human capital differentials alone explain the “lack of advancement” that *The Economist* notes among the lower castes. Indian society is characterised by persistent and pervasive inter-group inequality in economic life. The current pattern of inter-group inequality closely matches the economic scheme of the caste system. Previous research has provided a reasonably clear picture of the magnitude of inter-caste inequality in income, but has not demonstrated to what extent inequality today is attributable to the denial of economic rights in the past, and to what extent it is attributable to forms of social exclusion and discrimination that persist in modern India.

In order to develop appropriate remedies to eliminate caste inequality, we need to understand precisely how caste affects individuals’ economic lives, how the economy interacts with caste values and attitudes, and what behaviour produces persistent inequality and deprivation for groups based on their caste, ethnicity or religion.

This issue of economic discrimination has not been central to mainstream social science research in India. Hence we have limited insight about the forms and nature of economic discrimination associated with group identities. In the papers that follow this overview, we focus on contemporary patterns of discrimination in the formal labour market, using methods originally developed to study discrimination in the United States. The papers are the fruit of a two-year collaboration between researchers at the Indian

Institute for Dalit Studies and sociologists supported by Princeton University’s Institute for International and Regional Studies. Taken as a whole, they document widespread patterns of discrimination and underlying attitudinal orientations – based on caste and religion – that contribute to inequality in employment and wages in the modern, formal sector of India’s economy.

Social Exclusion

In this introduction, we provide a context for the empirical papers, dwelling on the framework of social exclusion. Buvinic (2005) summarises the meaning of social exclusion as follows: “The inability of an individual to participate in the basic political, economic and social functioning of society”, and goes on to add that it involves, “the denial of equal access to opportunities imposed by certain groups in society upon others”. This definition captures three distinguishing features of social exclusion: it affects culturally defined groups, is embedded in social relations between them, and results in deprivation or low income for those excluded [Hann 1997; Sen 2000]. It is critical to take note of the particular form of exclusion in the Indian context, where ascriptive rather than achieved characteristics are the basis of exclusion. The former are not amenable to alteration as a consequence of individual agency and cannot, therefore, be regarded in any fashion as a matter of personal responsibility.

Amartya Sen (2000) has drawn worldwide attention to the dimensions of social exclusion. He draws distinctions between situations in which individuals are kept out (or left out) and circumstances of inclusion (including forced inclusion) on deeply unfavourable terms. Either type can generate adverse effects. Sen also differentiates between active exclusion – blocking opportunity through deliberate policy interventions on the part of government or private agents – and passive exclusion, which does not rely on these interventions, but may lead to similarly negative outcomes.

Discrimination is clearly a particular kind of exclusion and it can take on an active or a passive form. Active exclusion through

discrimination will see agents systematically refusing to hire or accept the participation of members of a social group despite their formal qualifications (or even overqualification), while routinely favouring members of other groups who are equally or even less qualified. The consequences of discrimination can lead to deprivation indirectly, through passive discrimination in which discouragement and lower self-confidence results in poor performance, or through direct routes that limit access to income or education that is mobility enhancing.

Market based discrimination has received considerable attention by scholars of race in the US [Pager 2003] and by scholars of caste in India [Weisskopf 2004; Thorat et al 2005]. In all instances, we speak here of restrictions (formal and informal) on the entry of subordinate groups to the market and/or through selective inclusion with unequal treatment. Labour market discrimination can transpire in the domain of hiring, or in wages, or through working conditions, and opportunities for upward mobility. We can fairly speak of discrimination when two persons with the same education, training, work experience, and hence identical human capital, differing only in personal characteristics that have no implications for productivity, are treated unequally, with the minority group member denied jobs, given lower wages, or unfavourable working conditions and the majority (or higher status) individual favoured in these domains.

Occupational discrimination occurs when members of subordinate groups face restrictions that prevent their entry into the occupations of majority group members, or face differential treatment in the acquisition of factors and services necessary to enter the market (e.g., credit restrictions related to caste, exclusions from property markets, etc).

In short, social exclusion – in its more specific manifestation as discrimination – refers to the processes through which groups are wholly or partially restricted from full participation in the economic, educational, and social institutions that define social membership. Exclusion involves both the act of restricting access and the consequences that follow, principally forms of deprivation.

In the Indian context, exclusion revolves around institutions that discriminate, isolate, shame, and deprive subordinate groups on the basis of identities like caste, religion and gender. In these papers, we are principally concerned with caste-based discrimination and secondarily with exclusion based on religion. The role of caste in labour market matching is particularly critical, since it is in this domain that the most vigorous attempts to redress past inequities have been undertaken, principally through the reservation policy. This legislation has proven to be contentious and has recently generated street protests as reservations have been extended to professional education (e.g., medical school). It is therefore important to review what we know about caste as a source of inequality before introducing the empirical papers.

Caste has long been used to regulate economic life in India [for a thorough historical treatment see Dirks 2001]. The economic organisation of the caste system is based on the division of the population into a hierarchical order of social groups that determine the economic rights of members, which are determined by birth and are hereditary in the strictest sense of the term [Akerlof 1976; Scoville 1991; Lal 1989; Ambedkar 1936 and 1987]. A community-based system of enforcement regulates caste privileges by means of social ostracism, violence, and economic penalties that find their justification in elements of Hindu religion

[Lal 1989; Ambedkar 1936 and 1987]. Although strictly speaking a Hindu tradition, castes have emerged in religions that provide no theological justification for practices of exclusion or pollution, such as Islam, Sikkism, and other religions of India, chiefly because low caste Hindus have attempted to escape the confines of their ascriptive identities through religious conversion.

Fixed economic rights defined by caste, with rigid barriers against change, leads to “forced exclusion” – to use Sen’s term – of one caste from the economic rights of another. In market economies, occupational immobility is the result as restrictions on access to land, labour, capital, credit, education, and other inputs and services necessary for commercial activity provide for differential capacities to participate. Entitlements to economic rights become narrower and narrower the farther down the hierarchical ladders of the caste system. Without intervention, classically untouchables, or dalits, who lie at the very bottom of the social order, find themselves restricted to the most despised occupations and the lowest wages. Unable to interact freely with others in the market, dalits find themselves simultaneously restricted in the economic sense and repressed as citizens, as they are – in practice, even if not in theory – denied civil rights (freedom of expression, equality before the law), political rights (the ability to exercise political power) and socio-economic rights (claims to property, employment and education). Not surprisingly, we find at the bottom of the caste system individuals and social groups in disproportionate numbers, mired in poverty.

Economic Consequences

Exclusion from the access to markets has series of adverse consequences not only on income distribution but also on economic growth. Market failure associated with economic discrimination leads to lower economic growth, inequality in income, poverty and inter-group conflict.

Market failures are created via economic discrimination as an inefficient allocation of labour among firms emerges, and wages recede below the marginal product for workers of discriminated groups. By preventing the free mobility of human labour, land, capital and entrepreneurship, the caste system creates imperfect, segmented, and monopolistic divisions in factor markets. Labour and capital fail to move from one occupation to another even when the wage rate and rate of return (on investment) is higher in alternative fields. Thus factor immobility spurs gross inefficiency in resource allocation [Akerlof 1976; Scoville 1991; Lal 1989; Ambedkar 1936 and 1987].

Economic efficiency is also affected by reducing the job commitment and effort among workers who perceive themselves as victims of discrimination, and by reducing the magnitude of investment in human capital by discriminated groups because the return on their investment is weakened. This is far from the model of a perfectly competitive market economy [Birdsall and Sabot 1991].

By restricting the movement of labour between occupations, caste becomes a direct cause of voluntary unemployment for

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higher caste individuals and involuntary unemployment for those at the bottom. Higher caste Hindus would generally prefer to opt out of the market for some time than to take up an occupation defined as polluting. For the low caste untouchables on the other hand, the restriction against claiming more prestigious occupations will compel them to remain involuntarily unemployed.

Jobs regarded as socially degrading, almost by definition, reduce the social status of those who hold them – scavenging being the classic example. Forced into these occupations on account of their caste origin, dalits rarely experienced job satisfaction. Instead, as Ambedkar (1936) pointed out long ago, the jobs to which untouchables are restricted engender aversion, ill will and the desire to evade. The dignity of physical labour – a key aspect of jobs at the bottom of the status hierarchy – is nearly absent in the work ethic of the caste system and hence impacts the incentive to work in adverse ways. Hence the caste system as a form of economic organisation lacks the elements that lead to the optimum use of resources. Moreover, because it is built on a foundation of restriction, the caste system fosters inter-group conflict that is socially harmful and diverts human resources to destructive ends.

Remedies against Discrimination

Given the virtues of increasing economic efficiency and growth, as well as reducing poverty and inequality, there is a compelling interest in diminishing the market discrimination. What, then, can be done?

Akerlof (1976) and Scoville (1991) have argued that social ostracism, coupled with economic penalties, acts to strengthen the caste system by creating deterrents to change. Only if the magnitude of the social costs (in terms of social isolation and deprivation), economic costs (transaction and enforcement) begin to outweigh the economic gains (profit and surplus extraction), are we likely to see significant change in the shape of the caste system. Sadly, the opposite prevails: the cost of enforcement is low and the economic gains associated with exploited labour conspire to prevent change.

There is a view that in a competitive market situation, the firms/employers who indulge in discrimination face eroding profits – in theory. Therefore pressure on firms, will self-correct discriminatory behaviour. In practice, however, labour market discrimination has shown to be quite durable. Market discrimination will persist, if all firms practice discrimination. Further not all markets are competitive. Indeed in developing countries, monopoly power looms large, providing employers with the power to discriminate at will. In the absence of opportunities to display their talents, groups that have been excluded will find it difficult to develop the necessary signals that will make clear what employers are missing by avoiding them.

The view that inefficiency, and therefore pressure on firms, will self-correct discriminatory behaviour argues in favour of strengthening competitive markets as the solution to this vexing problem. Those who regard this as insufficient, argue instead, that an interventionist policy is necessary because self-correction takes too long or is weakened, particularly in societies like India with enormous surplus labour. Legal safeguards and “set asides” or quotas governing access to land, labour, capital markets, product and consumer markets, and social services including

education, housing, and healthcare, for these advocates, the only way we are likely to see discrimination abate.

India's Dilemmas

India today is caught in the grip of a querulous debate over developing reservation policies for groups and communities suffering from economic exclusion associated with caste, gender and religious identity. Most contentious is the notion that the policy which has governed the allocation of places in higher education, public employment, and government itself should be extended to the private sector. Two policy directions have emerged – economic empowerment and equal opportunity.

The policy of economic empowerment is essentially directed towards improving the ownership of assets like agricultural land, capital for business, entrepreneurial skills and education. These measures are supposed to enhance the capacity of groups historically subjected to discrimination to develop businesses of their own and enhance their employability in industries and in occupations that pay well. These investments are a form of reparations – to lower castes, especially those formerly deemed untouchable, or to other backward castes, women and some religious minority groups – in recognition of the denial of equal economic rights from which they have suffered in the past. There is a reasonable degree of consensus over the legitimacy of this strategy.

However when it comes to providing equal opportunity through instruments like reservations, we see considerable disagreement. It has been argued, particularly by private sector leaders, that discrimination is a problem of the past [Jodhka and Newman 2007]. From this perspective, labour and other markets generally work in a neutral manner and access to job and other markets is therefore determined by merit and efficiency alone. As such there is no need of safeguards against possible market discrimination. Thus while the policies for general economic empowerment of discriminated groups through human capital investment find favour, policies that guarantee access, particularly to employment, are fraught with disagreement. This is a struggle between social ideals, but fundamentally as well, one that is based on disagreements about the empirical state of markets.

The papers presented here were conceived as tests of the proposition that discrimination is no longer an issue in Indian labour markets, particularly in the formal, private sector. They make use of research techniques pioneered in the US to measure discrimination in quantitative terms and to identify attitudes and beliefs through qualitative means that contribute to discriminatory patterns of hiring on the part of participants in the matching process (employers and job seekers). In order to focus as clearly as possible on discrimination, and screen out the most vexing inequalities in human capital, they focus on the formal labour market and the most highly qualified job seekers – graduates of the most prestigious universities in India. Admittedly, this does not cover the entire universe of questions that should be raised about discrimination in modern India. Yet these papers pose the questions in the context of the most advantaged applicants, who (in theory) face the lowest barriers at entry to favoured occupations since they possess formidable qualifications.

What these four papers establish, is serious evidence of continued discriminatory barriers in the formal, urban labour market

even for highly qualified dalits and Muslims. The first paper, by Thorat and Attewell, provides the results of a field experiment which found that low caste and Muslim applicants who are equally or better qualified than high caste applicants are significantly less likely to pass through hiring screens among employers in the modern, formal sector in India. The second paper, by Jodhka and Newman, presents the results of a qualitative interview-based study of human resource managers, focusing on hiring practices. This research suggests that managers bring to the hiring process a set of stereotypes that make it difficult for very low caste and very high caste applicants to succeed in the competition for positions, while advantage falls to the middle.

Deshpande and Newman contribute a third paper focusing on the experiences of equally qualified dalit and non-dalit cohort-mates from three major universities, who enter the labour market at the same time. This longitudinal project, which is still ongoing, shows that despite similar qualifications, the two groups expect and, true to form, experience divergent outcomes in the labour market. Dalit students bring weaker connections to the task and are far less likely to find jobs in the private sector. Finally, Madheswaran and Attewell contribute an econometric analysis of the National Sample Survey of India, which shows a 15 per cent wage penalty for scheduled caste and scheduled tribe respondents, compared to otherwise equivalent higher caste workers.

Taken together, these papers constitute an argument that far from fading as India modernises, the problem of discrimination remains a serious one – even at the very top of the human capital hierarchy. They cast some doubt on whether the natural operation of the market will be sufficient to correct this inefficiency in labour allocation.

This is not to suggest that investments in levelling the playing field are of no value. Clearly, dalits who lack educational opportunity in childhood and adolescence will be greatly disadvantaged compared to those who have them (dalit and non-dalit). Dalit students who reach the best of India's universities, but are at a financial disadvantage because they bear the continuing burden of supporting their families, would benefit from additional financial aid so that they can concentrate on their studies just as more advantaged students do.

Yet reaching the pinnacle of what Indian education has to offer is not sufficient to create full and open opportunity. The occupational and wage differentials that research documents reflect the accumulated benefits of family connections that enhance the matching process for high status students, while making it harder for the low status but well qualified students to compete. These studies also point to continuing attitudinal barriers that subject low caste applicants for jobs in major companies, and people from remote tribal regions, to negative stereotypes that may overwhelm their formal accomplishments in the eyes of employers.

These observations – coupled with the shrinking size of the public sector – have prompted some advocates to argue in favour of extending reservations or some form of affirmative action to the private sector. As the Jodhka and Newman paper makes clear, this is firmly opposed by private sector leaders, not only because they prefer to avoid any form of regulation over hiring, but also because they are convinced that there is no problem of caste or religious prejudice in modern India. We believe the debate over policy remedies should proceed in the

light of empirical evidence and we submit these papers as a first step in that direction. ☐☐

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