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**Social Inequality, Labour Market Dynamics and the Need for Expanding  
Reservation – Some Issues for Consideration\***

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# **Social Inequality, Labour Market Dynamics and the Need for Expanding Reservation – Some Issues for Consideration**

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## Abstract:

This paper brings two new elements to the debate around expanding reservation in centre of excellence in higher education. First, it separately estimates Upper Caste Hindu profiles in education (drop-out rate and completion rate), employment and relative incomes and establishes that Upper Caste Hindus are significantly better off in all these parameters than ST, SC or OBC populations. It also establishes that in Urban India, ST, SC and OBC populations have very similar profiles and are at a great distance from Upper Caste Hindus. In Rural India, OBC are situated in the middle – between ST and SCs on the one hand and Upper Caste Hindus on the other – but again at a great distance from the latter. Second, it links this privileged positioning of Upper Castes Hindus with changing labour market dynamics in the 1990s and suggests that as a result Upper Caste Hindus dominate access to the best jobs in the Urban economy. Access to high quality tertiary education has then become key to accessing the most dynamic segment of a decelerating labour market. It uses evidence from both of these to intervene in the current debate around expanding reservations to OBCs in public institutions of higher learning and argues that the above make expanding reservation imperative.

Keywords: Affirmative action; reservation; social inequality; inequality; labour market dynamics.

# **Social Inequality, Labour Market Dynamics and the Need for Expanding Reservation – Some Issues for Consideration**

**Mritiunjoy Mohanty**

The UPA Government's decision to pass enabling legislation so that the 93<sup>rd</sup> Amendment of the Constitution is implemented has let the cat among the quota pigeons.

This decision has to be read in conjunction with the Prime Minister's suggestion that there was a need to "broad base employment" and therefore the private sector seriously consider "affirmative action" so that backward sections of our society benefit from the process of job generation and employment growth.

The UPA government's decision and the P.M.'s suggestion have met with predictable and vociferous protests that merit is being sacrificed at the altar of political expediency and 'emerging' India's growth to global power status, that is being driven by private initiative and merit, will be checked and perhaps even derailed.

Whatever be the arguments for or against political expediency, it is important to recognise that the Government's decision to expand reservation for the socially disadvantaged in centres of higher learning and the P.M.'s suggestion that the private sector seriously consider affirmative action are of a piece and reflects both the underlying social reality and a growing demand that something be done to change it. That is to say these are real issues and they are not going anywhere in a hurry and that we, as a society and polity, would be well advised to confront that reality rather than behaving as if it does not exist or wishing that it would go away.

This paper attempts to put the issue of quotas and reservation in context and to respond to some of the issues that have been raised in the on-going debate around expanding reservation in 'centres of excellence' to cover OBCs. The paper uses data collected in the last large sample survey conducted by the NSSO in 1999-2000 and the Census 2001 to make its estimates and underlines once again the necessity of collecting more detailed information in terms of caste and religion so as to aid more accurate analysis.

The paper is divided into seven sections: Section I estimates population distribution according to geography and caste groups. Section II explores caste inequality in terms of consumption levels. Section III looks at caste inequality from the perspective of access to education. Section IV explores caste inequality from the standpoint of employment outcomes. Section V discusses the changing dynamic of employment generation in the 1990s. Section VI studies labour force attributes in terms of literacy and education. Finally Section VII draws together the discussion and analysis in earlier sections and situates it in terms of unequal access and outcomes, argues why it is imperative to expand reservation and responds to some of the issues raised in this debate.

## I. Population distribution according to geography and caste groups

According to 2001 Census, 72% of India's population was rural and 28% urban. Of the overall population, the Census classified 80.5% of the population as being Hindus and 19.5% as being from other religions. In Rural India, 82.3% of the population were Hindus and 17.7% from other religions whereas in Urban India, the proportions were 75.6 and 24.4 respectively, obviously suggesting that people of other religious persuasions are, on the average, relatively more urban than the average Hindu.

NSSO's last large sample survey (55<sup>th</sup> round) was conducted in 1999-2000 and collected data by social groups. It classified the population as belonging to ST, SC, OBC and Others. The category 'Others' includes Upper Caste Hindus (UCH) and all non-Hindu religious denominations.

The sample survey result of the population break-up according to social groups is given in Table 1 below:

|       | ST   | SC   | OBC  | Others |
|-------|------|------|------|--------|
| Rural | 10.5 | 20.4 | 37.5 | 31.4   |
| Urban | 3.4  | 14.3 | 30.4 | 51.7   |

Source: Statement 5, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

Given that estimates of both a large sample survey and a census are subject to errors, albeit of different kinds, we should treat them as being reasonably representative of the overall population, rather than being definitive. It is therefore reassuring to note that the NSSO's large sample survey population estimates and those of Census 2001 are broadly in consonance with each other.

For example, according to the table above in 1999-2000, STs and SCs accounted for 10.5 and 20.4% of the Rural population respectively. According to the 2001 Census these proportions were 10.4 and 17.9% respectively. Similarly, for Urban India, NSS sample survey data would suggest that STs and SCs constitute 3.4 and 14.3% of the population. According to the 2001 Census these proportions were 2.4 and 11.8% respectively

As a reasonable approximation, we use Census 2001 estimates for other religions to disaggregate NSS 'Others' into 'Upper Caste Hindus' (UCH) and 'Other Religions' and the results are reported in Table 2 below:

|             | ST   | SC   | OBC  | UCH  | Other Religions |
|-------------|------|------|------|------|-----------------|
| Rural (72%) | 10.5 | 20.4 | 37.5 | 23.7 | 17.7            |
| Urban (28%) | 3.4  | 14.3 | 30.4 | 27.3 | 24.4            |

Note: \* UCH stands for Upper Caste Hindus. Figures in parentheses refers to shares in total population

What is immediately obvious from the Table 2 is that Upper Caste Hindus (UCH) and Other Religious denominations are urban whereas ST, SC and OBC populations are more rural. Indeed, STs are the most under-represented in what is already a very small urban population.

Using data from Table 2 we calculate the caste-wise distribution within the Hindu population and the results are reported in Table 3:

|             | ST   | SC   | OBC  | UCH  | Total |
|-------------|------|------|------|------|-------|
| Rural (74%) | 12.8 | 24.8 | 45.6 | 28.8 | 100   |
| Urban (26%) | 5.5  | 18.9 | 40.2 | 36.1 | 100   |

Note: Figures in parentheses refers to shares in total Hindu population

As Table 3 suggests that, compared with the national average, Hindus tend to be more rural and the relatively smaller urban Hindu population has a disproportionately high share of UCH.

## II. Caste Inequality and Consumption

The 55<sup>th</sup> Round, the last large sample survey conducted by the NSSO in 1999-2000, collected data on consumption levels among social groups (NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000). Data was collected across consumption classes, social groups and employment categories. We use results of that sample survey to explore inequality in consumption in both Rural and Urban India across employment categories and caste groups.

|            | Self-Employed in Non-agriculture | Agricultural Labour | Other Labour | Self-Employed in Agriculture | Others | Rural average |
|------------|----------------------------------|---------------------|--------------|------------------------------|--------|---------------|
| MPCE* (Rs) | 502                              | 386                 | 483          | 520                          | 652    | 486           |

Source: Statement 1R, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000;

\* MPCE denotes Monthly Per Capita Expenditure

|   | Self-Employed in Non-agriculture | Agricultural Labour | Other Labour | Self-Employed in Agriculture | Others | All   |
|---|----------------------------------|---------------------|--------------|------------------------------|--------|-------|
| % | 13.8                             | 31.1                | 7.4          | 37.7                         | 9.9    | 100.0 |

Source: Statement 2R, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

Using data from Tables 4 and 5, we can deduce the following about Rural India: first, the poorest households in rural India are those engaged in agricultural labour and more than 30% of the rural population belongs to agricultural labour households; second, those engaged in any kind of labour (agricultural or other) are the only households that have consumption levels less than the rural average; third, the most well-off households are those engaged in occupation classified as ‘Others’ (non self-employed and non-labour households); average per capita consumption for households classified as ‘Others’ is almost 35% higher than the rural average whereas households classified as self-employed in agriculture have per capita consumption levels barely 7% more than the rural average; finally, households classified as ‘Others’ account for almost 10% of the rural population and self-employed agricultural households account for almost 38% of the rural population<sup>1</sup>.

|           | Self employed | Regular | Casual labour | Others | Urban average |
|-----------|---------------|---------|---------------|--------|---------------|
| MPCE (Rs) | 813           | 981     | 541           | 1031   | 855           |

Source: Statement 1U, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

Note: \* MPCE denotes Monthly Per Capita Expenditure

|   | Self employed | Regular | Casual labour | Others | All   |
|---|---------------|---------|---------------|--------|-------|
| % | 39.1          | 39.9    | 14.3          | 6.4    | 100.0 |

Source: Statement 2U, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

Turning to Urban India the following may be deduced using data from Tables 6 and 7: first, the poorest households in Urban areas are those that depend upon casual labour for

<sup>1</sup> NSSO surveys define regular wage employees as persons who work in enterprises owned by others and, in return, receive salaries or wages on a regular basis (i.e., not on the basis of daily or periodic renewal of work contract). Self employment covers a large spectrum of economic activities with high income professional services such as doctors, lawyers, consultants, architects etc. at one end while at the other end of the spectrum are self employment activities involving much lower levels of skills and incomes, e.g. certain types of khadi and handloom activity, village and tiny industries and traditional services such as barbers, artisans, craftsmen, small retail outlets etc. ‘Others’ in Rural India is classified as non self-employed and non-labour households. ‘Others’ in Urban India is classified as not having gainful employment from casual labour or regular employment or self-employment.

their living but only 14% of the urban population belong to casual labour households; second, self-employed households constitute almost 40% of the urban population and have consumption levels that below the urban average; third, 40% of the urban population is classified as belonging to households with regular employment and have average consumption levels significantly higher than the urban average; finally, ‘Others’ – classified as not having gainful employment from any one of the sources mentioned above – have the highest consumption levels but also constitute a very small proportion of the urban population.

It is also instructive to note the differences between Rural and Urban India – first, average consumption levels in rural India are less than 60% that of urban India; second, almost 40% of Rural households depend on selling labour to earn a living as opposed to only 14% in Urban India and labouring households are of course the poorest in both rural and urban India; third, self-employed households in Urban India have average consumption levels below the Urban average, whereas in Rural India households classified as self-employed in agriculture have consumption levels above the Rural average; and finally with 40% of urban households holding regular jobs, the average quality of jobs produced in Urban India is better than that in Rural India.

We now turn to a discussion of consumption levels as distributed across caste and social groups.

**Table 8: All India MPCE of different household types in different social groups, 1999/2000**

|       | ST  | SC  | OBC | Others* | Average |
|-------|-----|-----|-----|---------|---------|
| Rural | 388 | 419 | 474 | 577     | 486     |
| Urban | 691 | 609 | 735 | 1005    | 855     |

Source: Statement 4, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

\*Others consists of Upper Caste Hindus (UCH) and all other religions

The first thing to note from Table 8 above is that in both Rural and Urban India, STs, SCs, and OBCs have consumption levels that is lower than the relevant average. The category ‘Others’ of course have an MPCE that is higher than average. The distance in terms of consumption levels between UCH and other Hindu social groups is in all probability understated by ‘Others’ given that Muslims constitute more than two-thirds of the ‘other religions’ population in both Urban and Rural India (Census 2001) and that the average Muslim in both Rural and Urban India is both more illiterate and has a higher drop-out rate (see Tables in Appendix) and therefore poorer than the average UCH, as will be discussed later. Second, in Rural India it is the ST households that are the poorest whereas in Urban India it is SC households that are at the bottom of the pyramid. Third, whereas OBCs in Rural India are only marginally below average consumption levels, in Urban India however the difference is far greater being almost 15% lower than average. And finally, ‘Others’ consumption levels are between 18-19% higher than the average in both Rural and Urban India.

A more nuanced view of why the category ‘Others’ fares so much better in terms of consumption levels is gained if we consider data sub-divided by consumption ranges. The NSS divides consumption data into 12 consumption ranges. For Rural India it divides

MPCE into 12 categories ranging from Rs. 0-225 at the bottom to Rs. 950 or more at the top. For Urban India it divides consumption ranges into 12 categories ranging from Rs. 0-300 at the bottom to Rs. 1925 or more at the top. Taking NSS consumption data and arranging it in terms of quartiles we get the following:

**Table 9: Per 1000 distribution of persons by MPCE quartile and average MPCE separately for different social groups in Rural India, 1999/2000**

|                 | ST  | SC  | OBC | Others |
|-----------------|-----|-----|-----|--------|
| Bottom Quartile | 375 | 274 | 197 | 106    |
| Second Quartile | 309 | 349 | 318 | 244    |
| Third Quartile  | 219 | 266 | 306 | 336    |
| Top Quartile    | 96  | 111 | 180 | 315    |

Source: Calculations on the basis of Statement 6, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

**Table 10: Per 1000 distribution of persons by MPCE by lowest and highest consumption class and average MPCE separately for different social groups in Rural India, 1999/2000**

|                                         | ST  | SC | OBC | Others |
|-----------------------------------------|-----|----|-----|--------|
| Lowest consumption class (0-225)        | 125 | 75 | 43  | 23     |
| Highest consumption class ( $\geq$ 950) | 17  | 22 | 38  | 95     |

Source: Statement 6, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

What Tables 9 and 10 make amply clear is the skewed nature of the income (proxied by consumption levels) distribution between ‘Others’ and all other caste groups in Rural India. Particularly it makes clear that in Rural India the category ‘Others’ (which includes UCH) is quite significantly different from OBCs. Compared across social groups, the category ‘Others’ is least likely to be in the bottom quartile and most likely to be in the top quartile. More specifically, OBCs are twice as likely to be in the bottom quartile as ‘Others’ households. And equally importantly, the probability that OBCs are going to be in the top quartile is less than 60% that of ‘Others’.

The inequality is even sharper when we consider the lowest and highest consumption classes. Again, OBCs in Rural India are almost twice as likely to be in the lowest consumption class as compared with ‘Others’. And ‘Others’ in Rural India are two-and-a-half times as likely as OBCs to be in the top highest consumption class. Or put differently, the probability that OBCs are going to be in the highest consumption class is only 40% that of ‘Others’. The probability that an ST or an SC will be in the highest consumption class is just around 20% that of ‘Others’.

**Table 11: Per 1000 distribution of persons by MPCE quartile and average MPCE separately for different social groups in Urban India, 1999/2000**

|                 | ST  | SC  | OBC | Others |
|-----------------|-----|-----|-----|--------|
| Bottom Quartile | 296 | 329 | 248 | 125    |
| Second Quartile | 341 | 357 | 354 | 250    |
| Third Quartile  | 233 | 240 | 275 | 337    |
| Top Quartile    | 131 | 74  | 124 | 287    |

Source: Calculations on the basis of Statement 6, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

**Table 12: Per 1000 distribution of persons by MPCE by lowest and highest consumption class and average MPCE separately for different social groups in Urban India**

|                                           | ST  | SC | OBC | Others |
|-------------------------------------------|-----|----|-----|--------|
| Lowest consumption class (0-300)          | 114 | 92 | 60  | 31     |
| Highest consumption class ( $\geq 1925$ ) | 20  | 10 | 22  | 80     |

Source: Statement 6, NSS Report 472: Differences in Level of Consumption among Socio-Economic Groups, 1999-2000

As Tables 11 and 12 make clear, the differences, between non-UCH Hindu caste groups and ‘Others’, are even starker in Urban India. As in Rural India, the category ‘Others’ is least likely among all social groups to be in the bottom quartile and the most likely to be in the top quartile. And again, similar to Rural India, OBCs are twice as likely to be in the bottom quartile as ‘Others’ households. But the probability that an OBC household would be in top quartile is just about 40% that of ‘Others’ - significantly lower than in Rural India. In addition, the category ‘Others’ has almost four times the probability of an OBC or an ST and eight times the probability of an SC of being in the highest consumption class. Again, significantly higher than in Rural India.

Again, there is an interesting difference to be noted between Rural and Urban India. We have of course clearly established that in both the category ‘Others’ is significantly better than all other non-UCH Hindu caste groups. In Rural India, OBCs are clearly better off than STs and SCs and clearly worse off than the category ‘Others’. However in Urban India STs, SCs and OBCs are far more similar rather than dissimilar in terms of consumption levels.

The disparity between UCH and other caste groups that is implied above, given that ‘Others’ includes UCH and ‘Other religions’, is brought out more clearly when we look at the data on education and employment where we have been able to disaggregate the category ‘Others’ into UCH and ‘Other religions’.

### **III. Caste Inequality and Education**

The 55<sup>th</sup> Round, the last large sample survey conducted by the NSSO in 1999-2000, also collected data for literacy (NSS Report No. 473: Literacy and Levels of Education in India, 1999-2000). Data was collected across consumption classes, social groups and religions. In terms of literacy indicators data was collected for the following broad categories: not literate and literate. The literate was then broken as follows: literate below primary, primary, middle, secondary, higher secondary, graduate and above. Data for these was collected for the above categories for Hindus as a whole as well as by social groups. We use information from both these and the break-up of Hindus into broad caste groups including UCH (see Table 3 above) to impute values for UCH.

We define a summary statistic called the drop-out rate. The drop-out rate is defined as the sum of values for illiterate below primary, primary and middle expressed as a percentage of the proportion of the literate population for each social/religious grouping. The drop-out rate<sup>2</sup> then gives us measure of what proportion of the literate population attained an education up to middle school or less. At the other end of the spectrum we define another summary statistic – the completion rate - by summing values of those who have completed higher secondary (10+2) or those that are graduates and above and expressing this sum as a percentage of the proportion of the literate population. As we will see in our discussion of labour market attributes, the payoffs to these groups are very asymmetric, with the likelihood that the latter group will get the best jobs being the highest. The results for the rural and urban population are reported in the tables below.

| <b>Table 13: Rural Literacy and Education Profile by Social Groups</b> |      |      |      |        |                  |
|------------------------------------------------------------------------|------|------|------|--------|------------------|
| Rural                                                                  | ST   | SC   | OBC  | Others | UCH <sup>3</sup> |
| Illiterate <sup>1</sup>                                                | 578  | 534  | 452  | 323    | 183              |
| Literate <sup>1</sup>                                                  | 422  | 466  | 548  | 677    | 817              |
| All                                                                    | 1000 | 1000 | 1000 | 1000   | 1000             |
| Drop-out Rate <sup>2</sup>                                             | 87.7 | 86.5 | 82.3 | 75.1   | 35.2             |
| Completion Rate <sup>2</sup>                                           | 5.0  | 5.2  | 7.1  | 10.8   | 11.4             |

Source: Calculations on the basis of Statements 3, and 5R in NSS Report No. 473, Literacy and Levels of Education in India, 1999-2000 and Census 2001

Note: 1- Per thousand distribution of persons aged 7 and above

2 – Percentage of literate persons aged 7 and above

3 - UCH is a subset of 'Others'

| <b>Table 14: Urban Literacy and Education Profile by Social Groups</b> |     |     |     |        |                  |
|------------------------------------------------------------------------|-----|-----|-----|--------|------------------|
| Urban                                                                  | ST  | SC  | OBC | Others | UCH <sup>3</sup> |
| Illiterate <sup>1</sup>                                                | 300 | 338 | 247 | 135    | 34               |

<sup>2</sup> In calculating the drop-out rate in this manner, we have included some part of the 7-14 age group population who may actually be continuing in school rather than have dropped-out. To that extent it overestimates drop-out rates. Table 6 of NSSO Report 473 estimates age-wise break up of the population and their education attainments. Almost 20% of the population in Rural India belongs to the age group 7-14. Approximately 18% of the Urban population falls in that age category. In Rural India 26% of the 7-9 age group is illiterate and 21% of the 10-14 age group is illiterate. In Urban India the respective percentages are 14 and 9. Of the remaining literate population in that age group some might continue in school and some might drop-out. Table 31 of NSSO Report 458 gives age-wise distribution within households according to consumption classes. For both Rural and Urban India it suggests that the lower the consumption level the higher the share of this population in household size. For example, in the bottom three consumption classes in Rural India, the age group 5-14 accounted for between 29-33% of household size. In the top two consumption classes they accounted for between 15-18% of household size. In Urban India the respective percentages varied between 28-32% and between 13-15%. As we already established, non-UCH households among the Hindu population are clustered disproportionately at the bottom end of the consumption profile. In addition, as the National HDR 2001 suggests [p 51] drop-out rates increase cumulatively with education levels and are inversely related with income levels – the wealthier a household is the lower the drop-out rate. Given all of the above, despite the fact that some of the 7-14 age group included would be continuing in school, distances between caste groups do not alter and therefore none of the broad inferences drawn below are vitiated.

|                              |      |      |      |      |      |
|------------------------------|------|------|------|------|------|
| Literate <sup>1</sup>        | 700  | 662  | 753  | 865  | 966  |
| All                          | 1000 | 1000 | 1000 | 1000 | 1000 |
| Drop-out Rate <sup>2</sup>   | 67.9 | 76.1 | 67.9 | 51.2 | 34.9 |
| Completion Rate <sup>2</sup> | 19.4 | 11.6 | 15.9 | 30.4 | 43.7 |

Source: Calculations on the basis of Statements 3 and 5U in NSS Report No. 473, Literacy and Levels of Education in India, 1999-2000 and Census 2001

Note: 1- Per thousand distribution of persons aged 7 and above

2 – Percentage of literate persons aged 7 and above

3 - UCH is a subset of Others

The first thing to be noted about the two tables above is the difference between Rural and Urban India. Urban India is significantly more literate, has significantly lower drop-out rates and higher completion rates across all social groups. Second, in both Rural and Urban India, UCH are in a class by themselves. They are way more literate than any other Hindu social group. Indeed in Urban India UCH are almost completely literate. Third, among the literate population, UCH have substantially lower drop-out rates. In Rural India OBCs come a distant second and they have a drop-out rate more than 2.3 times that of UCH. Not only is it the case that UCH have lower drop-out rates as compared with all other Hindu caste groups but it is also the lowest across all religious categories (see Table A1 in Appendix). In Urban India OBCs and STs come a distant second and both have a drop-out rate of just under twice that of UCH. Reinforcing this pre-eminence across all social and religious strata, only Zoroastrians have lower drop-out rates in Urban India than UCH (see Table A2 in Appendix).

Turning to completion rates the following may be noted: First, UCH have significantly higher completion rates, particularly in Urban India. They have, in Urban India, more than twice the completion rates of STs, almost thrice the completion rates of OBCs and nearly four times the completion rates of SCs. Indeed in Urban India, UCH have a completion rate better than any other religious grouping except Zoroastrians (see Appendix). Second, it is also important to note how similar ST, SC and OBCs are in terms of literacy and educational attainments and how different they are from UCH. Finally, UCH drop-out rates in Rural and Urban India are almost identical but UCH completion rates in Urban India are four times that of Rural UCH. Given that Urban incomes (proxied by consumption levels, see Table 8 above) are significantly higher across the board than Rural incomes, this would support the view that completion rates are related to income levels – i.e., it is expensive to stay out of the labour market and stay in school and college and it is only the relatively better-off who can afford it. And as both consumption and employment data (see Tables 8 above and 15-16 below) suggest, Urban UCH are significantly better-off than Rural UCH.

When it comes to specifically to higher education (tertiary) the inequalities in distribution of capabilities noted above get repeated. As Desphande and Yadav (2006) points out, in Urban India, of their respective 20+ populations, 25% of UCH and 24% of Sikhs were graduates. Of the same cohort, 11% of the ST 20+ population were graduates, 5% of the SC population, 6% of Muslims and 9% of Hindu-OBCs. That is to say, in Urban India, an Upper Caste Hindu aged 20+ is more than twice as likely as a ST and almost three times as likely as a Hindu-OBC to be a graduate, more than four times as likely as a Muslim

and five times as likely as an SC person. If anything the distance between UCH and SCs in terms of graduates has widened.

#### IV. Caste Inequality and Employment

The 55<sup>th</sup> Round, also collected data for employment and unemployment status by social groups (NSS Report No. 469: Employment and Unemployment among Social Groups India, 1999-2000). Data was collected for employment and unemployment status by social groups, consumption classes, and social groups (i.e., ST, SC, OBC and Others). In Rural India, employment categories were sub-divided into the following five groups: self-employed in non-agriculture; agricultural labour; other labour; self-employed in agriculture; and 'Other'. In Urban India employment categories were sub-divided into the following groups: self-employed, regular; casual; and others. John and Mutatkar (2005) use 55<sup>th</sup> Round NSS data, among other things, to provide a distribution of employment status by religion. We use these two sets of data, total employment (usual status) estimate of 397 million and rural and urban employment estimates from Sundaram (2001) [see Table 20 below], to estimate the pattern of UCH employment in both Rural and Urban India. The results are reproduced in the tables below:

|                                  | ST   | SC   | OBC  | UCH  |
|----------------------------------|------|------|------|------|
| Self employed in non-agriculture | 5.2  | 12   | 15.5 | 8.2  |
| Self employed in agriculture     | 36.2 | 16.4 | 34.7 | 60.0 |
| Agricultural labour              | 39.7 | 51.4 | 29.2 | 17.2 |
| Other labour                     | 8.9  | 10.0 | 7.9  | 1.5  |
| Other                            | 10.1 | 10.2 | 12.7 | 13.4 |
| all                              | 100  | 100  | 100  | 100  |

|               | ST   | SC   | OBC  | UCH  |
|---------------|------|------|------|------|
| self employed | 21.6 | 27.3 | 37.6 | 29.2 |
| regular       | 38.0 | 37.6 | 36.3 | 56.2 |
| casual        | 25.6 | 26.5 | 17.4 | 2.6  |
| others        | 14.7 | 8.5  | 8.5  | 11.5 |
| all           | 100  | 100  | 100  | 100  |

The data above demonstrates very clearly the distance between the UCH and other social groups in terms of work that Hindu caste groups broadly do to earn a living.

In Rural India an UCH is least likely to earn a living from labour (both agricultural and non-agricultural). An OBC is twice as likely as an UCH to earn a living from labour. And an SC more than three times as likely. It should also be borne in mind that in Rural India

consumption levels of households that earn their livelihood from selling labour is the lowest across all household types (see Table 4 above).

In Urban India the differences are even starker. There is only a 3% chance that an UCH will work as casual labour which is the worst kind of job on offer in Urban India (see Table 6 above). An OBC is 6 times as likely as an UCH to work as casual labourer and an SC or an ST, 9 times more likely!

There is a nearly 60% probability that an UCH will be working in regular employment – the best kind of employment category available in Urban India (see Table 6 above). This is significantly higher than the probability for any other caste category.

Finally, we use information from Tables 4, 6, 15 and 16 to get a sense of the relative positioning of Hindu caste groups in terms of consumption levels. Table 4 tells us that of the five employment categories in Rural India - self-employed in non-agriculture; agricultural labour; other labour; self-employed in agriculture; and ‘Other’ – agricultural labour and other labour have consumption levels below the rural average. Table 6 tells us that of the four employment categories in Urban India - self-employed, regular; casual labour; and other – casual labour and self-employed have consumption levels below the Urban average. We use all four tables to derive Table 17 below.

**Table 17: % distribution of persons by average MPCE separately for Hindu caste groups in Rural and Urban India, 1999/2000**

|                   | ST   | SC   | OBC  | UCH  |
|-------------------|------|------|------|------|
| <b>Rural MPCE</b> |      |      |      |      |
| Below Average     | 48.6 | 61.4 | 37.9 | 18.7 |
| Above Average     | 51.5 | 38.6 | 62.9 | 81.6 |
| <b>Urban MPCE</b> |      |      |      |      |
| Below Average     | 47.2 | 53.2 | 55.0 | 31.8 |
| Above Average     | 52.7 | 46.1 | 44.8 | 67.7 |

Table 17 gives a more direct confirmation of what we were only able to infer earlier – in terms of consumption, UCH are clearly very different from other Hindu caste groups in both Rural and Urban India. In Rural India, relatively, it is the SCs that are worst off followed by STs, OBCs and with the UCH at the top. In Urban India however it is the relative position of OBCs which is the worst, followed by SCs, STs and finally the UCH at the top. Equally importantly, in Urban India, the differences between STs, SCs and OBCs in terms of relative positioning are very small and they look a lot more like each other and very different from UCH.

In sum, an UCH in either rural or urban India is significantly more likely to be less illiterate, have lower drop-out rates and therefore be better educated, hold better jobs and have much higher consumption levels than all other social groups – STs, SCs and OBCs. Given that UCH are a lot less illiterate and far better educated they are least likely to be poor. Equally importantly, the higher the consumption level the more likely the presence of UCH. Whereas these differences are true for both Rural and Urban India, they are far more marked in Urban India where UCH are over-represented. Finally, in Urban India,

STs, SCs and OBCs are far more similar than dissimilar in terms education attainments and consumption levels.

## V. Changing Employment Generation Patterns

The 55<sup>th</sup> Round, collected data for employment and unemployment status (NSS Report No. 458: Employment and Unemployment Situation in India, 1999-2000) and reveals the following sectoral employment shares as detailed in Table 18. It is worth noting that the bulk of India's employed labour force is still employed in agriculture. Services are a distant second in terms of shares followed even further behind by Industry.

In terms of output (GDP) of course, as is well known and in some quarters celebrated, the story is rather different. Today Services account for more than 50% of the output, with the rest being shared roughly equally by Primary sector (including Agriculture) and Industry. The share of Agriculture is worthy of note because over the fifty or so years since Independence, Agriculture has seen a decline of around 30 percentage points in terms of its GDP share but only around 10 percentage point in terms of its share in employment. Therefore the anomaly that today more than 50 years since Independence, Agriculture is much less important in terms of GDP (or output) growth but still remains key in terms of provision of employment, livelihoods and well being of the average citizen.

| <b>Table 18: Employment Shares (%)</b>                   |                    |
|----------------------------------------------------------|--------------------|
|                                                          | 1999/2000          |
| A. Agriculture                                           | 56.8               |
| B. Mining and Quarrying                                  | 0.7                |
| <b>I. Primary (A+B)</b>                                  | <b>57.5 (192m)</b> |
| C. Manufacturing                                         | 12.1               |
| D. Electricity, Gas and Water Supply                     | 0.3                |
| <b>II. Industry (C+D)</b>                                | <b>12.4 (42m)</b>  |
| E. Construction                                          | 4.4                |
| F. Trade Hotels and Restaurants                          | 11.2               |
| G. Transport, Storage and Communication                  | 4.1                |
| H. Finance, Insurance, Real Estate and Business Services | 1.4                |
| I. Community, Social and Personal Services               | 9.2                |
| <b>III. Services (E+F+G+H+I)</b>                         | <b>30.3 (102m)</b> |
| <b>Total (I+II+III)</b>                                  | <b>100 (336m)</b>  |

Source: Planning Commission, (2002a), Special Group on Targeting 10 million Employment Opportunities per year, Table 1, page 132

Note: Figures in parentheses refer to total number jobs, in millions, generated in each sector. Employment estimates are Current Daily Status (CDS) definition of employment used by the NSSO

Having noted that agriculture continues to be the mainstay of employment generation, it is worth noting an important change in the overall economy's ability to generate jobs. As Table 19 below indicates, in the 10 year period between 1983-1993/94 the economy generated 76 million net new jobs (the periodisation is determined by the NSSO large

sample surveys on employment), i.e., an average rate of 7.6 million net new jobs per annum. In the subsequent 6 year period, 1993/94-1999/2000, it generated 21 million net new jobs, i.e., an average rate of 3.5 million net new jobs per annum.

It should be noted that GDP grew at a rate of 5.2% over the first period in Table 19 and at about 6.6% over the second period. Which is to say that, even as the economy sustains an average GDP growth rate of 5-6% over a fairly long period of time, its ability to generate jobs both in absolute and relative terms declines significantly. The absolute decline we have noted already – 7.6 million net new jobs in the 1980s to 3.5 million new jobs in the 1990s. The relative decline, in what economists call the employment elasticity of output growth, is even sharper – from 0.5 in the 1980s to 0.2 in the 1990s for every percentage point of GDP growth.

The upshot of the above is that, even as the economy is able to sustain relatively high rates of GDP growth, the economy’s ability to generate net new jobs, both in absolute and relative terms, has seen a sharp and significant decline over the last couple of decades.

| <b>Table 19: Shares in Net New Jobs Created (%)</b>                                                      |                     |                       |
|----------------------------------------------------------------------------------------------------------|---------------------|-----------------------|
|                                                                                                          | 1983 to 1993/94     | 1993/94 to 1999/2000  |
| Agriculture                                                                                              | 51.6                | 1.1                   |
| Mining and Quarrying                                                                                     | 1.0                 | -1.4                  |
| <b>I. Primary</b>                                                                                        | <b>52.6 (40.2m)</b> | <b>-0.30 (-0.06m)</b> |
| Manufacturing                                                                                            | 9.6                 | 28.2                  |
| Electricity, Gas and Water Supply                                                                        | 0.8                 | -1.4                  |
| <b>II. Industry</b>                                                                                      | <b>10.4 (7.9m)</b>  | <b>26.8 (5.5m)</b>    |
| Construction                                                                                             | 5.0                 | 19.2                  |
| Trade Hotels and Restaurants                                                                             | 11.4                | 52.0                  |
| Transport, Storage and Communication                                                                     | 3.8                 | 18.4                  |
| Finance, Insurance, Real Estate and Business Services                                                    | 1.7                 | 6.1                   |
| Community, Social and Personal Services                                                                  | 15.0                | -20.2                 |
| <b>III. Services</b>                                                                                     | <b>37.0 (27.9m)</b> | <b>73.5 (15.6m)</b>   |
| Total (I+II+III)                                                                                         | 100 (76m)           | 100 (21m)             |
| Source: Calculations on the basis of data Planning Commission (2002a), page 132                          |                     |                       |
| Note: Figures in parentheses refer to absolute number of net new jobs created in the period in millions. |                     |                       |

If Agriculture continues to be almost as pre-eminent as fifty years ago in terms of its share of total employment generated, the recent past has seen a dramatic change in the pattern of new job generation. And this is of signal importance to the debate around reservations that we are currently engaged in.

As Table 19 above indicates, in the period 1983-1993/94, the Primary sector (agriculture + allied sectors) generated about 53% of the net new jobs created by the economy.

Industry accounted for about 10% and the remaining 37% of net new jobs were generated by the Service sector.

In the subsequent period, 1993/94-1999/2000, there is however a dramatic change. The Primary sector produces no net new jobs. Indeed if anything it contracts slightly in absolute terms. All the net new jobs created in the second period are in the industry and services sector – 27% by the former and a whopping 74% by the latter.

To round-off this discussion on employment generation, there are, on the basis of the above, three broad generalisations that can be made – first, agriculture continues to be the mainstay of employment in the economy; second, the absolute and relative (elasticity) ability of the economy to generate net new jobs has declined significantly; and finally, as opposed to the 1980s where the driver of net new job generation was the primary sector in general and agriculture in particular, in the 1990s net new job generation has been driven largely by the service sector.

|      | Rural Employment | Urban Employment | Total Employment |
|------|------------------|------------------|------------------|
| 1994 | 292              | 82               | 374              |
| 2000 | 301              | 96               | 397              |

Source: Table 1 in Sundaram (2001)

Sundaram and Tendulkar (2001) use NSS large sample survey data to estimate total rural and urban employment. Their estimates are reported in Table 20. It is worth noting in this context, population and employment shares are significantly different. According to the 2001 Census, 28% of the population is urban whereas according to Sundaram and Tendulkar’s estimates, only 24% of the employed workforce is urban. Similarly, 72% of the population is rural but accounts for 76% of the employed workforce. Using data in Table 20 we see that of the 23 million net new jobs that were generated between 1994 and 2004, just over 60% (or 14 million) were in urban areas and just under 40% (or 9 million) in rural areas. This is clear contra-distinction with the 1980s where the bulk of the net new jobs generated were in rural areas (see Sen (1996)). Therefore in another break with the past, in the 1990s, it is the Urban economy that has been the major driver of the generation of net new jobs in the economy<sup>3</sup>.

Finally, in terms of employment quality, it is worth noting, that in 1999/2000, only 13.9% of those employed (usual status) had regular wage employment, 33.2% worked as casual labour and 52.9% declared themselves self-employed (see Planning Commission (2002b) page 39).

|  | Regular | Self-Employment | Casual Labour |
|--|---------|-----------------|---------------|
|--|---------|-----------------|---------------|

<sup>3</sup> It is important to also note that this urban economic growth of the 1990s has had little impact on rural growth and employment generation. As Sen and Himanshu (2004) note, “[...] many urban areas failed to offer either linkage to their rural hinterlands or escape for the rural poor.” [p 4371]

|                          | Employment |            |            |
|--------------------------|------------|------------|------------|
| 1983-1993/94 (72 m)      | 10.3 (7m)  | 43.9 (32m) | 45.9 (33m) |
| 1993/94-1999/2000 (22 m) | 25.8 (6m)  | 20.5 (5m)  | 53.7 (12m) |

Source: Calculated on the basis of data from Planning Commission (2002b), Tables 2.5 (p22) and 2.15 (p39)

Note: 1 – Jobs as defined by ‘Usual Status’ employment

Figures in parentheses refer to absolute number of net new jobs created in the period in millions.

Whereas the percentage share of regular employment has stayed more or less constant over the last couple of decades or so (if anything there has been a mild decline in the 1990s), there has been a significant increase in casual labour with a commensurate decline in self-employment (see Planning Commission (2002b)). The impact of this change comes through much more clearly when we look at the distribution of net new jobs by quality. As Table 21 above indicates, in the 1980s regular employment accounted for only 10% of the net new jobs and the rest was evenly distributed between self-employment and casual labour. In the 1990s however, the share of self-employment in net new jobs dropped drastically from 44% in the earlier period to just over 20%. The decline in the share of self-employment was compensated by an increase in the share of regular jobs (it more than doubled) and that of casual labour.

In effect then in the 1990s net new job creation got polarised between the high and the low end of the employment spectrum. It will be recalled that self-employed households in both Rural and Urban areas have consumption levels close to that of their respective geographical averages (see Tables 4 and 6 above). This polarisation has to be seen in the light of the fact that, as already noted above, average annual net new job creation declined from around 7 million in the 1980s to around 3.5 million in the 1990s. Therefore even as employment generation decelerated significantly, the pattern of net new jobs generated changed dramatically, generating twin peaks - a small but significant share at the high end and a clear majority of jobs at the low end with a marked shift towards urban employment.

It is worth pointing out in this context that the declining importance of self-employment in net new job creation impacts OBCs the most, particularly in Urban India, because they among all caste groups are most likely to be self-employed (see Table 16 above). To be sure UCH get affected as well, but because, of the few net new jobs that are being created, there is an increasing proportion being generated at the high end in regular employment in Urban India where UCH are most likely to be employed, relatively, the impact of a decline in self-employment is more likely to be disproportionately borne by OBCs.

If regular waged employment is small, organised sector employment is even smaller – in 1999/2000 the organised workforce accounted for only 7% of the total employed. Along side a paucity of regular waged employment is a decline in organised sector jobs. Growth in organised sector employment declined from 1.2% in the first period to 0.5% in the second. This decline however masks divergent trends: private organised sector employment rates of growth increased from 0.5 to 1.9% over the two periods. Public

sector employment generation turned negative – from 1.5 to -0.03% [see Mahendra Dev (2006)]

In sum then, employment generation patterns have seen a fairly dramatic shift in the 1990s. First, there has been a significant deceleration in employment generation with a more than 50% decline in the ability of the economy to generate net new jobs. Second, alongside this deceleration, the driver of net new jobs has shifted from agriculture to services. Third, as opposed to the 1980s, the bulk of net new jobs have been generated in Urban India. Fourth, the middle has significantly dropped in the labour market in the terms of the generation of net new jobs, with a marked increase in the proportion of high-end regular jobs but with the bulk being generated in low-end casual labour jobs.

## VI. Labour force attributes

Finally we turn to a discussion about labour force attributes in term of education.

|        | Average years of education | No education | Tertiary Education |
|--------|----------------------------|--------------|--------------------|
| All    | 3.9                        | 42.4         | 6.3                |
| Male   | 4.6                        | 33           | 7.3                |
| Female | 1.9                        | 68.5         | 3.7                |

Source: Ghose (2004)

As Table 22 above indicates, India’s labour force remains largely low-skilled and illiterate – on average the labour force has 4 years of education; more than 42% has no education and only 6% has tertiary (college) education. Women have education attributes that are significantly worse – the vast majority of women have no education and only 4% have college education.

In India labour force participation ratio (i.e., the proportion of the working age population [15-64 years] is either working or seeking work) is very low even when compared with other developing countries such as China, Korea, Brazil or Mexico let alone developed market economies. In 1999/2000, 59% of the working age population in India participated in the labour force, as compared to 65% in Korea and Mexico and 75% in USA and Japan. The difference is largely on account of differences in female participation ratios – i.e., male participation ratios are similar to comparable developing countries and developed country ratios. In 1999/2000, in India only 34% of working age women participated in the labour force as compared with 54% in Korea, 42% in Mexico, 64% in Japan and 72% in the USA [see Ghose (2004)]. Not only is the female participation ratio low, but it has also declined over time [see Table 5.1 (p 60) in NSSO Report N0. 458]. Among other things, this decline in female participation ratios has probably allowed the economy to cope with the deceleration in employment generation in the 1990s without a much sharper increase in open unemployment.

What Table 23 suggests is that if one has no education or very low levels of education the likelihood is that one will end up either in self-employment or as a casual labourer. On

average a self-employed person had 4 years of education. It is also worth noting that the percentage of people in the category of self-employed with tertiary education is a measly 4%. Therefore only a miniscule proportion of the self-employed would be high income professionals.

|                      | Average years of education | Percentage with no education | Percentage with tertiary education |
|----------------------|----------------------------|------------------------------|------------------------------------|
| Employed population  | 3.7                        | 43.4                         | 5.8                                |
| Self-employed        | 3.7                        | 41.6                         | 4.4                                |
| Casual labourers     | 1.8                        | 60.3                         | 0.3                                |
| Regular employees    | 7.8                        | 12.7                         | 22                                 |
| Source: Ghose (2004) |                            |                              |                                    |

Those in regular employment had on average 8 years of education and, equally importantly, the probability that one would get regular employment is highest if one has a college degree. Clearly then the human capital requirement in terms of schooling and college education increases with the quality of jobs, or to put it differently, the pay-offs from education in terms of job quality and consumption levels are immense.

| <b>Agriculture (57.5)</b> |             |                            |
|---------------------------|-------------|----------------------------|
|                           | Structure   | Average years of education |
| All workers               | 100         | 2.6                        |
| Self-employed             | 54.9        | 3.2                        |
| Casual labourers          | 43.6        | 1.7                        |
| <b>Regular employees</b>  | <b>1.5</b>  | <b>7</b>                   |
| <b>Industry (12.4)</b>    |             |                            |
| All workers               | 100         | 4.5                        |
| Self-employed             | 36.8        | 4.3                        |
| Casual labourers          | 35.8        | 2.2                        |
| <b>Regular employees</b>  | <b>27.4</b> | <b>7.9</b>                 |
| <b>Services (30.3)</b>    |             |                            |
| All workers               | 100         | 5.8                        |
| Self-employed             | 45.1        | 4.7                        |
| Casual labourers          | 10.8        | 2.3                        |
| <b>Regular employees</b>  | <b>44.1</b> | <b>7.9</b>                 |

Source(except parentheses): Ghose (2004)

Note: Figures within parentheses refer to % shares in total employment (taken from Table 18)

Table 24 establishes, among other things, three facts about today's labour market which are germane to the debate on the issue of expanding reservation in institutions of higher learning. First, the average human capital requirement is the highest for service sector jobs. Second, the service sector has the best job profile, in the sense that it has the highest share of regular jobs and the lowest share of casual labour jobs. Third, and as a consequence of the above, the probability of being a regular employee is the highest in the service sector.

Pulling together the discussion on changing employment patterns and labour force attributes the following trends are noted; first, the bulk of the labour force (i.e. more than 40%) has no education and less than 6% has tertiary education; second, the labour market is generating over time, both in terms of net new jobs and overall employment, more casual labour jobs and a small number of regular employment positions. As a result, along side this trend towards casualisation is one of polarisation between high end and low end jobs that is particularly worrisome because, even to begin with, regular employment positions accounted for very small proportion of overall employment; third, the probability of getting a regular waged job is highest if one has tertiary education, i.e., a college degree; fourth, the human capital requirement – in terms of years of schooling – is the highest in the service sector; fifth, the probability of getting regular waged employment is highest in the service sector; sixth, the ability of the economy to generate jobs both in an absolute and relative sense has declined over time and as a consequence, relative to labour force growth, there is a scarcity of jobs; seventh, agriculture continues to be the mainstay of employment generation in the economy, generating almost 60% of all jobs in the economy; eighth, however in the net it produces no new jobs and indeed in terms of absolute levels of employment has begun contracting; ninth, almost three-quarters of the net new jobs are being generated by the service sector; and finally, tenth, along side a sharp slowdown in regular wage employment, is a slowdown in the much smaller organised sector employment accompanied by an actual shrinking of organised public sector employment. There has however been an increase in the rate of growth organised private sector employment; and finally, 60% of the net new jobs in the 1990s were generated in Urban India, in stark contrast to the 1980s where it was Rural India that was the major driver of net new job generation.

## **VII. Unequal Access and Outcomes and the Debate around expanding Reservation**

What all of the above suggests is that employment generation and labour market requirements have undergone tectonic shifts in the 1990s and the costs of this adjustment have been borne asymmetrically by non-upper caste populations.

**Outcomes:** When we bring together the discussion of the preceding three sections – i.e. on caste based inequality, employment opportunities and labour force attributes – we can quite comfortably make the following broad generalisations: First, given educational attributes and geographical distribution, an UCH is most likely to hold a regular job in the

service sector in Urban India. Second, the decline of self-employment in the generation of net new jobs would tend to affect Urban OBCs most and given educational attributes, they have far fewer exit options than UCH. Third, given the changed patterns of employment generation and educational attributes, SCs and STs are more likely than ever to be over-represented in casual labour employment, particularly in Urban India. Fourth, if current education attributes and employment patterns remain unchanged, then UCH are most likely to be concentrated in high-end service sector Urban jobs and SCs, STs and OBCs are most likely to be in low-paying casual labour jobs across agriculture, industry and services in both Rural and Urban India. Fifth, reservation of jobs in the organised public sector used to be one mechanism through which SCs and STs could aspire to high-quality regular-waged organised sector employment. However with the public sector shrinking and the private sector producing all net new jobs in the organised sector, even this limited access route has been closed. And, finally, all of the above taken together reinforce income (here proxied by consumption) inequalities where the higher one goes in income levels the greater the probability that it will be dominated by UCH.

**Change, Differentiation, Outcomes and the Agrarian Crisis:** SC, ST or OBC households in Rural India are predominantly landless labour or small or marginal farmer households. Almost 40% of Rural ST, 65% of SC and 50% of OBC households own a measly 0.01-0.40 hectares of land<sup>4</sup> and hence the impact of the inability of agriculture to generate net new jobs is disproportionately borne by the non-UCH households. The nature of job-creation in the 1990s also limits their opportunities in terms of seeking non-farm employment, because these are households with very low levels of education (average of <2 years; see Table 24).

It is true that SCs and OBCs are a far more differentiated category in terms of access to land (see Chaudhury (2004)) than is generally assumed – they span the entire spectrum from landless labourer and artisans to medium farmers (and now perhaps even the odd large farmer!). However the agrarian crisis gripping rural India – rising input prices, falling output prices and non-availability of institutional credit and hence declining profitability of agriculture – affects landholding STs, SCs and OBCs on the one hand and UCH on the other asymmetrically.

In fact, as a result (of the crisis, that is), Bihar in the 1990s has seen a lot of churn in land holding patterns with UCH land holders selling land to some OBCs and migrating to cities [see Sharma (2005)]. And as Srivastava (2005) points out in his insightful paper on how economic change has affected social groups in UP, there has been a broadening of land ownership across non-UCH social groups. However on average OBC land holding size is still significantly lower than average upper-caste land holdings. Therefore in terms of asset positions, upper-caste land holders are in much better position to cope with declining profitability. Crucially, even in rural India, UCH are much better educated and have far lower drop-out rates than any other caste group and hence are much better situated to seek non-farm employment of the sort being generated by the economy.

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<sup>4</sup> See Table 4, p22, in NSS Report No. 469: Employment and Unemployment among Social Groups India, 1999-2000

If the employment effects of the crisis in agriculture are disproportionately borne by lower castes with very few exit options<sup>5</sup>, then opportunities being generated by the urban economy are being disproportionately enjoyed by UCH because of unequal access to education in general and higher education in particular. Crucially, even where access is available, UCH are able to better leverage this access because they have the financial staying power with which to complete school and college education, as is evidenced from both the low drop-out and high completion rate<sup>6</sup>. As we have noted earlier the best jobs on offer by the market are being generated in the service sector and the highest probability of accessing these is if one has at least a college degree. Employment growth then has disproportionately benefited upper castes. In addition, whatever access to high quality jobs was available to lower castes as a result of reservations in the public sector matters little because employment in the public sector has shrunk in the 1990s.

With the declining profitability of land and a somewhat greater democratisation in its ownership, unequal access to higher education combined with the staying power with which to complete higher secondary or an under-graduate education then becomes a mechanism through which UCH are able to maintain their social dominance and at the same time leads to increasing economic inequality witnessed during the 1990s [see Sen and Himanshu (2004)]<sup>7</sup>. In a sense, access to education and the ability to complete school/college education has become the ‘new’ land – the source both of power and accumulation.

It is in this context that one has to situate the UPA government’s desire to introduce a quota for OBCs in public institutions of higher learning and private educational institutions – these will improve access of lower castes to the most dynamic segments of the labour market.

Ghosh (2006) lists most of frequently stated arguments against expanding reservation in public institutions of higher education to cover OBCs and very effectively and cogently demolishes each, particularly the pernicious argument that reservations lead to increased inefficiency because they undermine ‘merit’<sup>8</sup>. As she notes there is substantial theoretical and empirical evidence that establishes that markets (which implicitly value merit or so argument goes) and discrimination can and do co-exist and that this discrimination

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<sup>5</sup> Sen and Himanshu (2004) have established that low growth rural areas were characterised by limited mobility from these to urban areas [see p 4371].

<sup>6</sup> An NSSO survey of 1995-96 (quoted on p. 56 of the National HDR 2001) reports that the drop out rate (defined differently from our definition here) increases cumulatively with levels of education. The survey also pointed out that the drop out rate was the least for those of in highest expenditure class and the highest for those from the lowest expenditure class of households.

<sup>7</sup> It is worthwhile quoting them on this. In concluding their detailed study of poverty and inequality in the Indian economy, Sen and Himanshu note “[...] a big picture appears quite unambiguously: that the 1990s was the first post-independence decade where economic inequality increased sharply in all its dimensions.” [p 4371]. And what we have sought to establish in this paper are reasons why, among Hindus, it was the non-UCH lower castes that got trapped at the bottom of that pyramid.

<sup>8</sup> Weisskopf (2006) is also very nuanced review and critique of positive discrimination policies in theory and practice, and why these might remain among the more effective ways of helping disadvantaged communities integrate with the social mainstream.

reduces economic efficiency. Indeed as she notes, there is now a lot of literature in economics that suggest that increasing diversity is good for efficiency. From that standpoint, reservations, by increasing diversity in schools and colleges and the workplace, will actually aid efficiency. She also notes that the increasing importance of coaching centres and tutorial colleges for entry into IITs and IIMs biases entry into these elite institutions in favour of UCH, given that they are significantly better off (as we have clearly established above) than non-UCH Hindus and therefore more likely to be able to afford expensive coaching.

**Relative and Absolute Distances:** One aspect that Ghosh does not cover in her paper is the notion popular in Urban upper-middle class India that OBCs are undeserving of reservation because they are more like 'us' (UCH). Somanathan (2006) says the same thing in a more scholarly fashion when she says that "The limited available evidence on average outcomes of OBCs relative to other groups suggests some disadvantage relative to unreserved Hindus, but these differences are small in comparison to those of SCs and STs" [p 2438]. She also says in the same article that her own research (jointly with Abhijit Banerjee) establishes that "SC access to primary schools was very similar to that for other groups and there was considerable convergence for the STs. For high schools and public goods, we found that SCs did far better than STs ..." [p 2437].

But as we have clearly established above, in terms of education profiles (drop-out rates, completion rates), employment profiles and relative income profiles, OBCs are significantly different from and worse off than UCH in both Rural and Urban India. In Rural India OBCs are significantly different from STs and SCs. However in Urban India, which accounted for the bulk of net new jobs in the 1990s, ST, SC and OBC profiles are very similar and, as we have already noted, markedly different from those of UCH. We have also established why the difference in education profiles has been critical in determining employment outcomes given the radically different labour market dynamics of the 1990s.

As Somanathan (2006) notes, it is undoubtedly the case that both access and enrolment have increased as compared with two or three decades ago. And equally importantly both NSS and other data suggest that there has been significant convergence in enrolment and attendance. Indeed some have argued in this regard that OBCs and UCH are not very different. In India, however, enrolment tells us little if anything. As we have established above, the drop-out rate for STs, SCs and OBCs is very high in Rural India and that of UCH is considerably lower. Our data suggests that in Urban India, there is a decline in drop-out rates, but it is noteworthy that they still remain significantly higher than Urban UCH. In addition, of course as we have noted repeatedly, UCH have much higher completion rates, particularly in Urban India. Effective schooling then remains very unequally distributed and significantly favours UCH in both Rural and Urban India. In addition, ST, SC and OBC populations remain significantly more illiterate than UCH.

**Standards:** Mehta (2006) rightly notes that in India there is far too much stress, in the debate around reservations, on the quality of the input whereas the relevant measure is the quality of the output. He rightly states that this needs much more empirical

investigation, but then seems to suggest that in India it is “relaxed standards in, relaxed standards out” that holds<sup>9</sup>. I do not know of any premier institution of which this is true, but I do know that in the place where I teach, IIM Calcutta, we have been reasonably successful in meeting our quota (SC/ST) requirements (therefore qualify for ‘relaxed standards in’) but impose very strict and unbending exit criteria. Therefore students (both quota and non-quota) who do not meet these are forced to repeat a year. And those who cannot complete our two-year programme in a maximum of three years have to leave the programme. And there are years when students, who have already repeated a year, do not make the grade and therefore have to quit the programme without a diploma. Of course, this observation might not have sufficient heft because the outside world does not have an independent way of evaluating how strictly we impose exit standards.

But there is a ‘natural experiment’ which drives home this point rather well. Given that we have been reasonably successful in meeting our quota requirements and that every year each student of the graduating batch seeking a job, successfully takes a job from campus (or what in jargon is called getting ‘placed’), in recent years a lot of our quota students have been placed in private sector firms, given that public sector recruitment has declined very sharply. Clearly, private sector firms are under no obligation to hire our students and if they do so it must be because they meet some independently established performance criteria. Given that they (or quota students) come in because of relaxed standards in the first place, it must mean their two years (or three<sup>10</sup>) at IIM Calcutta leads to sufficient skill upgradation such that they successfully meet some independently established performance criteria. Therefore we should be much more wary of making sweeping generalisations such as those by Mehta (2006) where he says “Unfortunately, in professional schools, output testing is less stringent” [p 2427].

Another way of judging output quality and usefulness of reservation is to look at career paths of those who receive access to centres of higher learning because of quotas. As Weisskopf (2004) notes, one of the most “systematic” explorations of the career paths of students who have used reservation to access tertiary education has been done by Patwardhan and Palshikar (1992) who conducted large stratified random sample of doctors who graduated from a well known medical college in Pune between 1971 and 1982<sup>11</sup> and studied, among other things, career paths of doctors post- their graduation from the college. The study covers many facets, but of immediate relevance is the conclusion that reserved seat candidates have seen significant upward mobility on the socio-economic scale and that practically all reserved seat candidates were clearly very competent as doctors. Indeed, they [as in, Patwardhan and Palshikar (1992)] clearly and squarely reject the widespread belief that reserved seat students are unable to qualify as competent doctors and set up private practices. This is of course only one study, but it is fairly detailed and systematic. Clearly much more of this sort of research needs to be

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<sup>9</sup> To be accurate Mehta (2006) says “But some studies suggest that institutions do not exactly contribute to improvement; relaxed standards in, relaxed standards out” [p 2427]. Mehta of course does not think it necessary to reference the studies that have reached the above conclusion.

<sup>10</sup> It is important to emphasise that non-quota students also complete the programme in three years.

<sup>11</sup> It is worth noting that the college already had OBC reservation by that time. Therefore seats were reserved for ST, SC, OBC and the Vimukta Tribes. 100 respondents were sampled, of which 74 (including 34 from OBCs) were from the reserved category and 26 from the unreserved.

done to study post-graduation career paths of candidates who access higher education using quotas, but there can be no presumption that reservation is in some sense wasted because of “relaxed standards in, relaxed standards out”.

**Quota-driven Access, Inequality, Fairness and the Creamy Layer:** We would like to conclude the paper with a brief discussion on the issue of a ‘creamy layer’ among those eligible for reservation cornering most of the benefits, and therefore in some sense being undeserving of being provided with unequal access to an education system where competition for quality higher education is exceedingly ferocious.

First, there is sufficient evidence to suggest that reservations do lead to an increase in intra-group inequality (see Weisskopf (2004) and references cited there) but practically no evidence to suggest that there has been a decline in inter-group inequality as a result. If anything, even at the very top (which presumably should be populated by the creamy layer), the evidence is that the distance between UCH and other caste groups is substantial.

Second, a pre-requisite to be in higher education is to finish school. And as our data suggests a significant proportion if not a majority of non-UCH social groups do not finish school, therefore the question of utilising reservations simply does not arise. It has been established over and over again that drop-out rates are inversely related to income levels. Therefore it is always the relatively better off who can afford to enter college because it is expensive to stay out of the labour market. Even among those who enter college, performance is positively related with income levels. Therefore the better off one (or one’s family) is the greater the probability that one will successfully complete a programme of study.

Therefore, if one yardstick of judging the success of reservations is the use that is made of the opportunity provided by unequal access, then by restricting it to the non-creamy layer might increase the chances that it will be wasted because students from poorer backgrounds are more likely to drop-out.

Third, reservations have to be seen as being necessary because of the lack of thorough-going social reform movements which inject a degree of upward socio-economic mobility by allowing for the formation of a middle class and an upper-middle class. Successful reservation then allows precisely for a formation of such a class and therefore helps not only in articulating its own interests but also, as Weisskopf (2004) suggests, providing role-models for possible upward mobility. In addition, despite the fact of increasing intra-group inequality due to reservation, the distance between them and their caste cohorts tends to be less than the distance between them and the UCH middle and upper middle class and therefore they tend to be little more socially sensitive and little less dismissive of collective interests [see Patwardhan and Palshikar (1992) and Weisskopf (2004)].

If there is evidence of the fact that by and large the opportunity provided to lower castes through quota driven access has not been wasted and that it has led to some upward mobility, then why is it that all evidence points to the fact that the relative distance

between lower castes and upper castes has not narrowed (see for example Srivastava's (2005) paper on evidence of this for UP)? The short answer, which brings us to our fourth point, is the non-fulfilment of quotas, particularly as one progresses up the scale of position and responsibility – as Deshpande (2005) puts it, “[...] the higher the representation of SC/ST, the lower paying the job.” [p 15]. She also quotes evidence from the literature that establishes the fact that as one goes up the bureaucratic and professional hierarchy, a larger and larger proportion of the quota remains unfulfilled. Indeed, as she points out the only place quotas do get completely fulfilled is in the reservation of seats to elected bodies.

Why do quotas go unfulfilled? The standard argument is that they remain unfulfilled because there are insufficient number of candidates of reasonable quality to fill these positions up, particularly as one goes higher up the ladder in terms of job-content and responsibility. When we look at the evidence provided in this paper about drop-out rates and illiteracy among non-UCH lower castes, it is not surprising that there might not be sufficient candidates to fulfil quotas. But the policy response to that is not that one does away with reservation but that one works towards lowering drop-out rates and illiteracy levels. In as much as lower caste students drop-out because they cannot afford to remain in the school system, quotas have to be accompanied by reasonably funded scholarships if we are serious about lowering drop-out rates. Or a publicly funded compulsory high quality school education that provides access to all. Indeed, if there is one thing that this paper makes amply clear, it is the crying need for public investment in education at all levels – primary, secondary and tertiary – if we have to provide access to all our citizens and reasonable jobs in a changing labour market.

But one cannot overlook the fact that quotas go unfulfilled, at least in part, because of obstructionist behaviour of UCH dominated bureaucracies and professions particularly in the higher echelons. As Guhan (2001) [quoted in Deshpande (2005)] notes a whole slew of mechanisms are used to keep SCs from climbing the hierarchy ladder: ad and temporary positions; elimination through evaluation processes such as personal interviews and personality tests; and biased entries in confidential records. Which takes us back Mehta's (2006) relaxed standards out argument: if standards are relaxed it is due to personal biases and not institutional mechanisms and there can be no presumption that biases work only in one direction.

**Of Social and Economic Inequality:** Finally, there is a clear need to distinguish between economic and social inequality. Social inequality is the result of discrimination perpetuated by institutional structures that over centuries have denied the possibility of a reasonably human existence. This then leads to a deficit of what Velaskar (1986) [whose work has been discussed in Weisskopf (2004)] calls “cultural capital”. Cultural capital is the ability to use knowledge, gained from praxis and contemplation, to both understand the world around us well as articulate a world view that defines our identity<sup>12</sup>. All communities therefore accumulate cultural capital. But in hierarchical and discriminatory societies such as ours, certain kinds of cultural capital is privileged over others because they have access to society's accumulated knowledge (through education that was denied

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<sup>12</sup> This is our and not Velaskar's definition of 'cultural capital'.

non-UCH) and use that to both comprehend reality better and also learn how to leverage knowledge as a mechanism of power. The denial of cultural capital and the lack of access to education then inhibit in many ways our ability to deal with knowledge and leverage it. And this cultural capital takes much longer to build up than convergence in income levels. Therefore it is not fair to think of a poor SC, ST, or an OBC and a poor UCH as being similarly situated, just as a middle class SC, ST or many middle class OBCs and middle and upper middle class UCH inhabit different worlds.

Therefore Deshpande and Yadav's (2006) proposal for a disability measure that combines caste inequality with income inequality conflates two very different sets of issues and two very different kinds of inequalities - one involves centuries old institutionally perpetuated discrimination, resulting in denial of access; in the other, lack of access is a result of lack of income, more than likely due to random market phenomena. And in our understanding therefore combining the two, both conceptually and ethically, misses the entire point of having caste-based reservations. The point is not that the latter lack of access should not be addressed and corrected, but just that these two must not be conflated and equated.

It is for all of these reasons and to ensure that there is some modicum of upward mobility for segments of our society that have long been denied, quotas for non-UCH Hindus across all institutions of higher learning both public and private become necessary, nay essential. And to ensure that quota-driven unequal access does not become another tool in perpetuating inequality, we also have to invest in reasonably good quality, compulsory school education for all. As Mao had said long ago, one needs a policy of walking on two legs.

Appendix

|                              | Hinduism | Islam | Christianity | Sikhism | Jainism | Buddhism | Zoroastrianism |
|------------------------------|----------|-------|--------------|---------|---------|----------|----------------|
| Illiterate <sup>1</sup>      | 443      | 479   | 263          | 385     | 153     | 343      | 351            |
| Literate <sup>1</sup>        | 557      | 521   | 737          | 615     | 847     | 657      | 649            |
| All                          | 1000     | 1000  | 1000         | 1000    | 1000    | 1000     | 1000           |
| Drop-out Rate <sup>2</sup>   | 80.2     | 87.3  | 76.8         | 72.9    | 60.2    | 81.9     | 66.3           |
| Completion Rate <sup>2</sup> | 8.4      | 4.4   | 9.4          | 9.3     | 24.4    | 7.8      | 23.3           |

Source: Calculations on the basis of Statements 3, 5R and 5U in NSS Report No. 473, Literacy and Levels of Education in India, 1999-2000.

Note: 1- Per thousand distribution of persons aged 7 and above

2 – Percentage of literate persons aged 7 and above

|                              | Hinduism | Islam | Christianity | Sikhism | Jainism | Buddhism | Zoroastrianism |
|------------------------------|----------|-------|--------------|---------|---------|----------|----------------|
| Illiterate <sup>1</sup>      | 189      | 302   | 89           | 165     | 46      | 193      | 45             |
| Literate <sup>1</sup>        | 811      | 698   | 911          | 835     | 954     | 807      | 955            |
| All                          | 1000     | 1000  | 1000         | 1000    | 1000    | 1000     | 1000           |
| Drop-out Rate <sup>2</sup>   | 57.3     | 74.4  | 50.5         | 48.0    | 38.9    | 71.4     | 30.2           |
| Completion Rate <sup>2</sup> | 25.3     | 12.5  | 30.1         | 32.2    | 42.1    | 13.5     | 43.6           |

Source: Calculations on the basis of Statements 3, 5R and 5U in NSS Report No. 473, Literacy and Levels of Education in India, 1999-2000

Note: 1- Per thousand distribution of persons aged 7 and above

2 – Percentage of literate persons aged 7 and above

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