

## Economic Exclusion and Poverty Linkages: A Reflection on Concept, Consequences, and Remedies in an Asian Context

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Sukhadeo Thorat

**T**here is exclusion on the basis of race, religion, color, gender, or ethnicity in many nations under diverse social, economic, and political systems. Such exclusion is a problem in several countries in Asia. And although many Asian countries—such as China, India, Japan, Malaysia, Nepal, New Zealand, Pakistan, and the Philippines—have developed equal opportunity policies to overcome economic discrimination, the nature of both market- and non-market-related discrimination is still not well understood, and neither are its direct and indirect effects on poverty. The limited number of studies on exclusion in Asia has affected the development of appropriate policies to overcome discrimination and its impact on poverty.

This chapter presents the argument that market- and non-market-related forms of discrimination directly affect poverty but also exacerbate it indirectly by reducing economic growth. The chapter highlights the need for socially inclusive policies; offers an analysis of the consequences of discrimination through the historical example of scheduled castes in India; and indicates potential policy options to redress exclusion and its effects.

### The Concept of Economic Exclusion and Its Relationship to Poverty

Broadly speaking, social exclusion can be defined as “the process through which individuals or groups are wholly or partially excluded from full participation in the

society within which they live.” The concept rightly focuses on both the processes by which social and economic institutions exclude groups and the multidimensional nature of the adverse consequences experienced by those who are excluded.

Social exclusion is group-based in nature. Economic exclusion or discrimination affects whole groups in a society, independent of the income, productivity, or merit of individuals within the group. Anyone can be excluded from access to markets because of lack of income, from access to employment on the grounds of low productivity, or from admission to educational institutions on the basis of lack of merit. In the case of group-based exclusion, however, the basis for exclusion is group identity and not the economic or productive characteristics of a specific individual. Although exclusion results in the denial of economic opportunities—such as access to capital assets, development of skills, and education—the originating cause is not lack of income, productivity, or merit but rather the individual’s group identity.

It is quite clear that insofar as exclusion and discrimination involve the denial of access to resources, employment, education, and public services, they certainly impoverish the lives of excluded individuals. Economic theory also implies that such discrimination can hamper economic growth by reducing efficiency. Labor market discrimination causes less than optimal allocation of labor among firms and sectors (given that those who are discriminated against receive a lower wage than the marginal product of their labor), and it reduces the effort expended by workers who perceive themselves to be discriminated against. Discrimination also results in inefficiency by reducing the magnitude of investments in human capital by groups discriminated against and by reducing the return to any human capital investments they make. Discrimination is thus a concern not only for equity but also for economic growth, and in this way it affects poverty both directly, by adversely affecting the income distribution, and indirectly, by affecting economic growth. Moreover, discrimination can also lead to intergroup conflict by exacerbating existing inequality and contributing to its perpetuation from one generation to the next.

### The Need for Socially Inclusive Policies

Conclusions regarding the consequences of market discrimination for economic growth and income distribution are derived from mainstream economic theory of market discrimination, which also predicts that in highly competitive markets, discrimination will prove to be a transitory, self-correcting phenomenon because market discrimination comes at a cost to employers and firms, eroding their profits and acting as a deterrent.

The free market solution, however, is not a final and practical remedy for a number of reasons. For example, market discrimination will prevail in a competi-

tive equilibrium if social norms ensure that all employers are discriminators. This is the likely reality, for the persistence of labor market discrimination in high-income countries over decades attests. In the absence of interventions, markets will continue to operate imperfectly, and discrimination will persist. Interventions are thus called for in the form of legal safeguards and policies that ensure fair and equal access and redress long-standing inequities through affirmative action and other measures. Given that excluded groups face discrimination through many market and non-market channels, policy interventions are required in the provision of social services and in various markets, such as those for land, labor, capital, and produce.

### A Focus on Castes in India

Although exclusionary practices are evident throughout Asia—for example, in the treatment of ethnic minorities in Laos and Vietnam and religious minorities in Central Asia—this chapter focuses on one example of exclusion, the case of scheduled castes in India. This is a useful example because the Indian government has taken significant action to reduce the incidence and impact of exclusionary policies against scheduled castes, so a discussion of the policies introduced in India provides some indication of the types of interventions that can be used to combat social exclusion.

#### The Present Social and Economic Conditions of Scheduled Castes

The caste system is based on the division of people into social groups whereby each group's occupations and property rights are inherited. The assignment or division of occupations and property rights across castes is unequal and hierarchal, with some occupations considered socially inferior. Castes at the top of the order enjoy more rights at the expense of those located at the bottom. The caste hierarchy is maintained through a system of social and economic penalties that are philosophically justified and supported by elements of the Hindu religion.

It is important to recognize the uniqueness of caste discrimination. The caste system involves exclusion and discrimination in multiple market and nonmarket transactions and societal interactions. Exclusion for scheduled castes (those at the very bottom of the caste hierarchy) may involve

1. limited access to markets such as those for labor, agricultural land, inputs, capital, goods, and social services;
2. differences between prices charged to or received from them in market transactions;
3. exclusion from certain categories of jobs and discrimination in hiring;

4. exclusion from the sale of certain consumer goods such as vegetables or milk due to the notion that scheduled castes are considered impure or “polluting”;
5. discrimination in the use of public services such as roads and bodies of water; and
6. physical or residential exclusion that prevents contact with other community members and full participation in community life.

Some statistics illustrate the multifaceted nature of this discrimination and its impact (Tables 34.1 and 34.2). SCs (members of scheduled castes) have a lower average level of expenditure than those in other castes, resulting in a rural poverty rate of 35 percent among SCs compared with 21 percent among those in other castes and an urban poverty rate of 39 percent among SCs compared with 15 percent among other castes (Table 34.1). (The poverty rate has been estimated by using the poverty line fixed by the Planning Commission of India.) Individuals from scheduled castes

**Table 34.1 The incidence of poverty and access to markets among scheduled castes**

Indicator	Scheduled castes	Others
Poverty		
Rural poverty incidence (% of households)	35	21
Urban poverty incidence (% of households)	39	15
Average monthly per capita consumption expenditure of rural households (rupees)	418.51	577.22 <sup>a</sup>
Average monthly per capita consumption expenditure of urban households (rupees)	608.79	1,004.74
Landownership		
Landless (% of rural households)	10.00	n.a.
Own land but less than half an acre (% of rural households)	65.00	n.a.
Employment		
Self-employed in agriculture (% of rural households)	16.40	41.10
Receive a regular wage/salary (% of urban households)	27.30	35.50
Employed in agricultural wage labor (% of rural households)	51.40	19.00
Employed in casual labor (% of urban households)	26.50	7.40
Unemployment rates based on the current daily status (%)	5.00	3.50
Average weekly wage earning (rupees per week at 1993–94 prices)	174.50	197.05

Sources: *Employment/unemployment Survey, 1999–2000*, and *Consumption expenditure survey, 55th round, 1999–2000* (New Delhi: National Sample Survey Organization, Central Statistical Office, 2000).

Notes: “Others” is net of scheduled castes and tribes and thus excludes scheduled castes and scheduled tribes. All statistics are estimated for the year 2000. The poverty line used is that fixed by the Planning Commission of India. n.a., not available.

<sup>a</sup>Estimates are based on 1999–2000 National Sample Survey employment data, calculated by A. Dubey, in “Note and statistical tables on social groups” prepared for the U.K. Department for International Development (DFID) (New Delhi: DFID, 2003).

**Table 34.2 Health indicators for women and children**

Indicator	Scheduled castes	Others
Infant mortality (per 1,000)	83.0	62.0
Mortality of children less than 5 years old (per 1,000)	119.0	82.0
Proportion of children more than 3 standard deviations below the average weight for their age (%)	21.2	13.8
Proportion of children more than 2 standard deviations below the average weight for their age (%)	53.5	41.1
Women with anemia (%)	56.0	48.0
Women receiving antenatal checkups (%)	61.8	72.1
Infants delivered at home (%)	72.1	59.0

Source: National Family Health Survey, 1998–99 (Central Statistical Office, New Delhi).

Note: "Others" refers to nonscheduled/nonbackward castes and nonscheduled tribes.

are less likely to own land or any productive assets to enable self-employment; they are more likely to depend on casual wage labor for income, resulting in higher levels of underemployment; and, when they are employed, they receive lower average wages than their non-SC counterparts.

Historically, in addition to being excluded from property rights, SCs have also been denied rights to education. High dropout rates, poor-quality education, and discrimination in education are some of the problems children from scheduled castes have faced. As a result, there are large gaps in literacy rates and education levels between children of SCs and those of other castes. In 2001 (the last census year for which data are available), the literacy rate among children of SCs was 54 percent, whereas among children of those not in scheduled castes or scheduled tribes it was 68 percent.<sup>1</sup>

Data from the 1998–99 National Family Health Survey also reveal a wide gap between SCs and other castes in health status and access to public services (Table 34.2). The rates of infant and child mortality are much higher in scheduled caste households than in others, and the levels of women's health and childbearing are much worse (perhaps a contributing factor). The extent of malnutrition and under-nutrition among children of SCs is also much greater than among children of other castes.

#### Policies and Strategies for Combating Exclusion

Despite the continued discrimination against SCs, the level of discrimination they face has in fact declined over time and as a result of their access to income-earning assets, and their employment has improved. The self-employment rates among SCs suggest that about one-third of scheduled caste households in rural and urban

areas have acquired access to capital assets from which they were traditionally prohibited. The literacy rate improved threefold from 1961 to 2001, rising from 10 to 54 percent. Assessed against the background of the traditional restrictions facing SCs in the ownership of capital assets and education, these were gains indeed. The cumulative impact of this and other improvements is reflected in the decline in rural poverty among SCs, from 59 percent in 1983/84 to 35 percent in 1999/2000. The government of India has been proactive in addressing exclusion and undertaking policies to foster social and economic empowerment among SCs. These efforts have had some success, but, as previously suggested, they have not fully addressed exclusion. Although the caste economy has undergone changes, some of its traditions persist. In order to reduce the disparities between SCs and those from other castes, improvements in asset and income levels among SCs need to take place more quickly. This, however, is not the case: calculations by both Dubey and de Haan indicate that although poverty fell among SCs between 1983 and 2000, the rate of reduction was lower for SCs than for those from other castes (–2.50 percent per year compared with –3.02 percent per year).

With this in mind, it is instructive to consider the policies implemented in India. The government's approach draws mainly from provisions of equality for SCs laid out in the constitution and has been influenced by two desires: to overcome the multiple deprivations that SCs inherited from their past exclusion and to provide them with protection against ongoing exclusion and discrimination. The result has been a twofold strategy that includes the following:

1. *Anti-discriminatory or protective measures.* The Protection of Civil Rights Act (1955) and the Prevention of Atrocities Act (1989) outlawed “untouchability” and other forms of discrimination in public places or in the provision of public services and provided legal protection to SCs in the event of acts perpetrated against them by members of higher castes. The practice of reservations in government services, state-supported educational institutions, and various democratic bodies also falls into this category. Reservations are used by the government to ensure proportional participation of SCs in public spheres.
2. *Developmental and empowerment measures.* In the absence of legal affirmative action policies in the private sector, the state has used general programs to promote the economic, educational, and social empowerment of SCs. These measures have been primarily undertaken as a part of anti-poverty programs that target or fix specific quotas for SCs where possible, as follows:
  - Programs for economic empowerment include measures for increasing SC ownership of capital assets; enhancing the business capabilities and skills of SCs;

distributing surplus land to landless scheduled caste households; subsidizing credit and input provision to SC households; providing employment generation schemes to address the lack of employment opportunities for SCs in the lean season; and supporting the release and rehabilitation of bonded laborers.

- Educational development programs comprise about half of the central government's spending on SCs. These programs include improvements in educational infrastructure in the form of hostels and support for educational institutions educating scheduled caste students, admission of these students to educational institutions through quotas and other measures, financial support for their education at various levels, and remedial coaching for boys and girls from scheduled castes. Under all of these schemes, girls are given particular attention.
- Additional schemes focus on improving SC access to civic amenities such as drinking water, housing, sanitation, electricity, roads, and public food distribution, because SCs often live in segregated residential areas with unequal access to these civic amenities.

Although SCs are represented in parliament through reserved seats, it is perceived that they have not been able to effectively participate, contribute to decision-making processes, or monitor program implementation. The paucity of the studies on the role of government representatives from scheduled castes makes it difficult to understand the reasons for this. Isolated research indicates that problems stem in part from the presence of numerous fragmented political groups, limited understanding of the complexity of the issue and its required policy response, and the absence of institutional support to enhance the capacity of representatives to effectively participate in political decisionmaking.

Similar constraints to effective participation are also observed in civil society. Although there have been many civil society initiatives targeting SCs and many of them have rich grassroots knowledge (some even receive selective support from the government), their effectiveness in bringing about change is limited by their lack of access to resources, knowledge of appropriate working methods, and connections to those with influence.

### A Call for Research to Develop Inclusive Policies

Given the importance of exclusion in aggravating persistent poverty, the need for action in this area, and the lack of clear insight on how to effect such action (particularly in the Asian context), research on these issues needs to be undertaken.

Systematic studies would support the development of appropriate policies. In particular, research should be undertaken on the following:

1. *The structural context of exclusion.* Further theoretical research is needed on the institutionalization of exclusion associated with caste, ethnicity, religion, color, and other forms of group identity; the effects of such forms of discrimination on economic growth, poverty, and governance; and the remedies against discrimination and deprivation.
2. *The nature and dynamics of exclusion.* There is a gap in the empirical research on the economic, social, and political conditions of excluded groups and the forms and dynamics of market discrimination (in land, capital, employment, product, input, and consumer markets) and nonmarket discrimination (in the provision of social services and in public institutions and political bodies).
3. *The consequences of discrimination.* Further empirical research is needed on the poverty consequences of discrimination and the resulting effects on excluded groups in terms of their access to livelihood opportunities, markets, services, and political institutions.
4. *Policy interventions.* Further research is needed to analyze the impact of public policies intended to combat exclusion and alleviate its impact on poverty. Such research must incorporate scientific analyses of interventions undertaken in Asia to empower marginalized groups in the economic, educational, political, and sociocultural spheres, as well as analyses of civil society initiatives, issues relating to implementation and governance, and policy experiences in other countries.
5. *Collective action.* Research is needed on effective forms of collective action by deprived groups and other segments of society—such as political parties, social organizations, and nongovernmental organizations—in striving to secure human rights.

## Conclusion

Although the purpose of this chapter has been to highlight the direct and indirect effects of economic discrimination on poverty and the need for socially inclusive policies, above all the chapter draws attention to the current paucity of knowledge on the full impact of discrimination and how this knowledge gap can be effectively addressed. Studies on these issues, as outlined earlier, are a necessary foundation for

the development of appropriate policies to combat discrimination and reduce the poverty associated with it.

### Note

1. Scheduled tribes are specific indigenous peoples whose status is acknowledged to some formal degree by the constitution of India. Those from scheduled tribes, together with SCs, are often known as “untouchables.”

### For Further Reading

de Haan, A. Extreme deprivation in remote areas in India: Social exclusion as explanatory concept. Paper presented at the conference Chronic Poverty, Manchester, England, April 2003.

Sen, A. *Social exclusion: concept, application, and scrutiny*, Social Development Papers 1. Manila: Office of Environment and Social Development, Asian Development Bank, 2000.

Thorat, S., A. Negi, and P. Negi. *Reservation and private sector: Quest for equal opportunity and growth*. Jaipur, India: Rawat, 2004.

