

## **Economic Exclusion and Poverty Linkages – Reflection on Concept, Consequences and Remedies in Asian Context**

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### **Introduction**

Exclusion on the basis of race, religion, ethnicity, national or social origin exists in many nations under diverse social, economic and political system including several countries in Asia. Number of countries in Asia like China, India, Japan, Malaysia, Pakistan and others have developed equal opportunities policies to overcome the consequences of economic discrimination. Notwithstanding these policies, our understanding about the forms and natures of market discrimination and their consequences on economic growth and poverty is limited. This has affected our capacity to develop appropriate policies to overcome the market failure associated with discrimination and to make market work in competitive and neutral manners. In Asian, there are limited studies both of theoretical and empirical nature, although some of the countries have developed policies against market and non market discrimination. In this sense the policy has been placed ahead of theory and empirical insights.

In this paper therefore we deal with selected issues related to market discrimination and its linkages with poverty and economic growth. It tries to bring some clarity on the (a) concept of market discrimination and its application to Asian context (b) consequences on poverty and economic growth and (c) the possible policies against market discrimination .

### Concept of Economic Discrimination

Broadly speaking social exclusion has been defined as “the process through which individuals or groups are wholly or partially excluded from full participation in the society within which they live. Two defining characteristics of exclusion are particularly emphasized, firstly the societal relations (or institutions) that cause exclusion and secondly its consequences in terms of deprivation in multiple spheres – coming mainly through denial of equal rights. The concept thus focus attention on the process that exclude some groups and the social and economic institutions that underlie this process and its adverse consequences in multiple spheres on the excluded groups. It is, therefore, necessary to understand diverse ways in which social exclusion can cause deprivation and poverty.

Amartya Sen draws attention to various meanings and dimensions of the concept of social exclusion. Distinction is drawn between the situation where some people are being kept out (atleast left out), and where some people are being included (may even be forced to be include d)- in deeply unfavorable terms, and described the two situations as "unfavorable exclusion" and "unfavorable inclusion." The "unfavorable inclusion", with unequal treatment may carry the same adverse effects as "unfavorable exclusion".

Sen also differentiated between "active and passive exclusion". For the casual analysis, and policy response, Sen argued that "it is important to distinguish between "active exclusion" -

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fostering of exclusion through the deliberate policy interventions by the government, or by any other willful agents (to exclude some people from some opportunity), and "passive exclusion", which works through the social process in which there are no deliberate attempts to exclude, but nevertheless, may result in exclusion from a set of circumstances.

Sen further distinguishes the "constitutive relevance" of exclusion, from that of "instrumental importance". In the former, exclusion or deprivation have an intrinsic importance of their own. For instance not being able to relate to others and to take part in the life of the community can directly impoverish a person's life, in addition to the further deprivation it may generate. This is different from social exclusion of "instrumental importance", in which the exclusion in itself, is not impoverishing, but can lead to impoverishment of human life.

Further elaboration of the concepts of exclusion or discrimination has come from the mainstream economics in the context of race and gender. The mainstream economic literature throws more light on discrimination that works through markets and developed the concept of market discrimination with some analytical clarity. In the market discrimination framework, exclusion may operate through restrictions on the entry in market, and/or through "selective inclusion", but with an unequal treatment in market and non-market transactions (this is close to the Sen's concept of unfavourable inclusion).

These developments in social science literature indeed enable to comprehend the meanings and manifestations of social exclusion, and its applicability to Asian situation. The concept of social exclusion in general and economic exclusion in particular, thus, essentially refers to the processes through which groups are wholly, or partially, excluded from full participation in the society in which they live. It emphasizes on two crucial dimensions involving the notion of exclusion, namely the "societal institutions"-economic and social, (of exclusion), and their "outcome" (in terms of deprivation). In order to understand the dimensions of exclusion, it is necessary to understand the societal interrelations and institutions, which lead to exclusion of certain groups. Therefore, for understanding the concept of exclusion, the insights into the societal process, and economic institutions of exclusions are as important as the outcome in terms of deprivation for certain groups.

The exclusion could also manifest itself in diverse ways in terms of "causes and outcomes". Sen therefore refers to various meanings and manifestations of social exclusion, particularly, with respect to the causes of discrimination in a given society. Exclusion could occur through direct exclusion, violating fair norms of exclusion (that is unfavorable exclusion), or through inclusion, but under unfavorable conditions, again violating fair norms of inclusion (that is unfavorable inclusion), or through deliberate government policies (that is active exclusion), and through unintended attempts and circumstances (passive exclusion), or exclusion caused through inability of some persons to relate to other persons (constitutive relevance).

For the purpose of conceptual clarity it is necessary to recognise the group characteristic of exclusions. It is also equally necessary to recognise, that economic exclusion or discrimination is independent of income, productivity or merit of individuals in the group. Often people do get excluded from access to markets due to lack of income or in employment due to low productivity/skill or in admission due to low merit. In these cases low income, productivity and merit is direct cause of exclusion. In the case of group based exclusion on the other hand, the basis of exclusion is group identity and not the economic characteristics of a group. The centre of exclusion is social group and not individual. It is a different matter

that exclusion necessarily lead to denial of economic opportunities such a access to capital assets, skill, education and also civil rights. But low income, productivity or less merit is not the original sources, it is the out come of exclusion associated with group identity and is its characteristic feature. The group characteristic needs to recognised when we discuss the policy and remedies against discrimination. It is also possible that some individuals in the discriminated group may be economically better off and they may have some advantage in overcoming the effect of discrimination compared with their poor counter part. But since exclusion has group focus they would also suffers from discrimination—may not be in same degree and magnitude as the poor member of their group.

These developments in social science literature indeed enable to comprehend the meanings and manifestations of the concept of social exclusion in general and economic, and its applicability to Asian situation.

### **Consequences of Economic Discrimination- Growth, and Poverty**

Why are we concerns about economic discrimination? Is discrimination only an equity/income distribution issue, or it also involve economic cost to the society? Are the costs it imposes on the society more social and political than economic? The conclusion of standard theoretical economic analysis indicate that economic discrimination, particularly the market discrimination does hampered economic growth, bring unequal income distribution and create potential situation for inter-group conflict.

In case of implications of discrimination on economic growth the theories implies clearly the adverse impact on profits, wages and efficiency in the allocation of labour. Economic theory implies that the economic discrimination will slow down economic growth by reducing efficiency due to less than optimal allocation of labour among firms and economy, (employing fewer than optimal number of labour who are discriminated as they received lower wage than their marginal product), by reducing job commitment and efforts of workers who perceive themselves to be victims of discrimination and by reducing the magnitude of investment in human capital by discriminated group and return on this investment.

In case of poverty it is quite clear that in so far as exclusion and discrimination involve the denial of access to resources, employment, education and common facilities that other have it can certainly impoverishes the lives that individual from excluded groups can enjoy. Discrimination thus become an issue not only of equity but also economic growth. Economic discrimination may aggravate poverty indirectly by slowing down the economic growth and directly by reducing the access to various market resulting lack of access to income earning assets, jobs, education.

By exacerbating current inequality between groups, and by contributing to its perpetuation from one generation to the next, discrimination and exclusion also led to inter-group conflict.

### **Socially Inclusive policies**

Reducing economic discrimination thus is essential because it is likely to increase economic growth, reduce poverty and inequality between groups and also reduce the potential for conflict to which inequality between groups may give rise. Conclusions regarding the consequences of market discrimination on economic growth and income distribution are

derived from the main stream economic theory. The same theory also predicts that, in highly competitive markets, discrimination will prove to be a transitory phenomenon as there are costs associated with market discrimination to the firm/employer which results in lowering the profits. Firms /employers who indulge in discrimination, face the ultimate sanction imposed by the markets. This theoretical perspective thus sees the resulting erosion of profits as a self-correcting dimension of discrimination.

The free market solution is not however final and practical remedy as for number of reasons market discrimination particularly the labour market discrimination might persist over long periods with or without prevalence of free market situation. First, not all markets are highly competitive. The persistence over decades of labour market discrimination in high income countries attests to that. Indeed in developing countries, monopoly power is quite significant which enable them to indulge in market discrimination. Second even if competition in all markets exist it is not a sufficient condition for the elimination of discrimination. The market discrimination in competitive market situation will still prevail if all the employers are discriminators. Therefore, discrimination will still continue. Thirdly, the discriminated worker may not have an opportunity to prove their productivity potential and therefore discrimination will still persists.

The limitation of the competitive market as solution are summarised by Shulmen and Darity, :

*“The analytical stance of the main stream neo-classical economists is characterized as methodological individualism and it presumes that economic institutions are structured such that society-wide outcomes result from an aggregation of individual behaviours. It presumed that if individuals act on the basis of pecuniary self-interest then market dynamics dictate equal treatment for equal individuals regardless of inscriptive characteristics such as race. Consequently, observed group inequality is attributed to familial, educational, or other background differences among individuals who are unevenly distributed between social groups. The causes of a dissimilar distribution of individuals between social groups may be genetic, cultural, historical, or some combination thereof. The differences in cultural attributes include the value families and neighbourhoods place on education, attitudes, and work habits. The historical refers primarily to the impact of past discrimination on current inequality., In contrast, economists who may be classified as methodological structuralism do not accept this interpretation. Structuralism as an analytical method holds that aggregate outcomes are not the result of a simple summation of individual behaviours, but rather arise from the constraints and incentives imposed by organizational and social hierarchies. In this view, individual behaviour achieves its importance within the context of group formation, cooperation, and conflict. Economic and political outcomes are thus a function of the hegemony exercised by dominant groups, the resistance offered by subordinate groups, and the institutions that mediate their relationship. Discrimination, in this view, is an inherent feature of economic system. Competition is either not powerful enough to offset the group dynamics of identity and interest, or it actually operates so as to sustain discriminatory behaviours. --- Discrimination is due to the dynamics of group identification, competition, and conflict rather than irrational, individual attitudes. Market mechanisms, far from being relied upon to eliminate discrimination of their own accord, must be scrutinized and pressured to further the goal of equality of opportunity”.*

The policy implications of this view on persistence of discrimination are obvious. Since the markets will continue to operate in imperfect manner the discrimination will persist. It will also persist even if market forces are competitive in nature under certain condition mentioned above it therefore call for intervention in the form of legal safeguard and fair/equal access affirmative action policies and other measures as safeguards. The state interventions in the form of equal opportunity policy are required in various markets like land, labour, capital, produce, consumer and social services such as education, and housing as the discriminated groups face discrimination in exchange carried through market and non market channels.

### **International Experience**

Several countries in world which have problem of discrimination developed policies against economic, social and political discrimination in multiple spheres. Measures against market discrimination however vary from country to country. Some distinguish features of these interventions need to be clearly understood. Two aspects need special consideration. These relate to (a) type of the economic sector or market which are covered or included for equal opportunity policy and (b) the method of equal opportunity policy.

Firstly as regard the economic spheres, most of these countries such as USA, Northern Ireland, South Africa, and Malaysia, have mainly developed ant-discriminatory measures for minorities or discriminated groups for labor market and other markets. However, in some countries affirmative action policy is also used for other economic and social spheres such as housing, education and various government contracts – latter include government contracts for construction and for government purchase of product and consumer goods. In the developing countries like Malaysia and South Africa where substantial portion of population is engaged in agriculture sector, in addition to labor market, the affirmative action policies are also extended to agriculture land market and private capital - domestic and foreigner capital market - in addition to social service like education, housing etc,

Secondly in these countries various methods, legal or non legal practices” have been used to provide protection and equal participation to discriminated groups in various markets.

These measures include (a) Reparation or compensation for the denial of property rights for long time in the past (b) legal provision against discrimination particularly in labor market in the form of “Equal Employment Opportunity Act”. These acts prohibit any firm from discrimination of worker un related to productivity or related to non economic considerations. (c) Fair Access strategy to ensure equal participation of minorities (or discriminated groups) in employment described by various names like affirmative action policy, reservation, fair access or new economic policy – either by promoting balance (racial /religious) employment, with certain general bench mark without quotas or with fixed quotas in proportion of population of minority groups.

The difference in the purpose and mechanism of these methods however needs to be understood clearly. The policy of “Reparation or Compensation” is used to compensate for the denial of property rights to certain groups in the past. It is considered as compensatory payment for an acknowledged grievous or social injustice to a group. In history there are examples where compensation or reparations have been used. The second anti-discriminatory method is the enactment of “Equal Employment Opportunity Act” (EEOA). Such acts legally prohibit the discrimination of person in employment and other economic spheres and made it subject to legal

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action. Person from minority group could use this provision in the event of discrimination in hiring and other spheres.

The Equal Employment Opportunity acts however do not involve any positive or affirmative action or steps on the part of government to guarantee or ensure equal participation of minority groups in employment and other economic spheres. Therefore several countries have taken an additional steps and made provision to give share to the member of minority groups in government and private employment, government contract and educational institute – public and private, housing and other. In such affirmative practices certain bench mark are fixed without quota or with quota to give adequate representation to the discriminated groups. However ever country has developed the method of measuring the fair access-mostly in term of population share or labour force share.

In country like Northern Ireland has also introduced system where by all firm/industries are required to register with Equal Employment Office and to indicate their employment composition by religious groups to bring more transparency and to help to develop policies for religion-wise balance employment pattern.

### **Need to undertake research Economic Discrimination, its consequences on poverty and Growth and to develop Inclusive policy**

Given the fact that the market discrimination aggravate poverty, directly by reducing the access to income earning opportunities and indirectly by affecting economic growth and that there is lack of insight on these issue, particularly in Asian context it is necessary that research on these issues is undertaken .Proper insights through systematic studies will help to develop appropriate policies .I suggest that IFPRI should undertake research on the following aspects .

#### **Structural context of Exclusion/Discrimination**

Theoretical research on the institution of exclusion associated with caste, ethnicity, religion, colour and other forms of group identity, effects of discrimination on economic growth, access to sources of income; poverty; governance and theoretical analysis of remedies against discrimination and deprivation.

#### **Nature and Dynamics of Discrimination/Exclusion**

Empirical research on economic, social and political conditions of excluded groups  
Research on the forms and dynamics of pre-market and market discrimination – land, capital, employment, products, inputs and consumer markets and social services like education, housing, health, etc.; discrimination in public institutions and political bodies.

#### **Consequences of Discrimination**

Empirical Research on consequences of discrimination on the excluded groups, on access to sources of income; land, capital, employment, education, housing, health services, etc.; impact on livelihood and poverty, political participation, and civil rights,governance and economic growth .

#### **Policy Research**

Analysis of government's policies for the poor, policies for the eradication of discrimination/exclusion and poverty; and empowerment of the marginalized social groups in economic,

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educational, political and socio-cultural spheres in Asia; policy experiences of other countries; civil society initiatives and issues relating to implementation and governance.

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Research on forms of collective actions by the deprived groups and other sections of society, political parties, social organisations, and NGO's for human rights.

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