

Unveiling the Economics of Caste-Based Social Exclusion in India: Insights From Neoclassical Economists To Ambedkarian Perspectives

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ABSTRACT:

This paper discusses the economic aspects of social exclusion in India, specifically focusing on the caste system. It explores various economic theories and approaches to understanding social exclusion based on caste. The paper aims to conceptualise social exclusion from an economic perspective, analysing the works of economists like Thorat and Ambedkar. It discusses the mainstream/neoclassical approach, behavioural economics approach, Marxian approach, and Ambedkarian approach to studying the caste system and its economic implications. This highlighted some important concepts such as fixed hereditary occupation, inequality in property rights, socio-economic ostracism, and the impact of caste-based discrimination on economic efficiency and income distribution.

Keywords: *Social Exclusion, Caste System, Economic Theory, Inequality*

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I. INTRODUCTION:

This paper presents the details of the abstract theoretical framework to conceptualise social exclusion along caste lines from various economic theories. After the second half of the 20th century, social exclusion became a concern of mainstream economics (Atkinson, 1998). Since then, Western economists have consistently worked on the economic interpretation of social issues such as gender, race, etc. (Sen, 2000). A few economists, including Thorat, have emphasised the economic interpretation of social exclusion along caste lines through the lens of Ambedkarian perspectives (Thorat & Newman, 2007). The primary focus of this paper is to understand and illustrate the economic analysis of the caste system by different economists, such as mainstream economists (neoclassical economists) (Becker, 1971), behavioural economists (Kahneman, 2011), Marxian economists (Mandel, 1968), and Ambedkarian economists (Ambedkar, 1948). This paper is divided into four sections. Section I briefly introduces the chapter, Section II presents the concept of social exclusion, Section III deals with major economic thoughts on social exclusion, particularly based on the caste system, and finally, Section IV summarizes this paper with a concluding note.

1.1 THE CONCEPT OF SOCIAL EXCLUSION:

The social system may be understood from two perspectives, one is from the social perspective and another is from the economic perspective. From a social perspective, the Indian social system is characterized by its rich cultural diversity, complex social hierarchy, and traditional structures such as the caste system. This perspective emphasizes the roles, norms, and cultural values that govern social interactions and maintain social order. The caste system, despite constitutional abolition, continues to influence social relations and access to resources, contributing to social stratification and disparities (Deshpande, 2013). From an economic perspective, social exclusion occurs out of a lack of effective access to land, the labour market, educational institutions, and the health care system (Kumbhar, 2017).

The basis on which people might be excluded, such as age, race, gender, caste, disability, ethnic background, migrants' status, religion etc. The socio-cultural history of India is such that Caste as an institution divides the society into different groups in a social hierarchy and that hierarchy determines the political and economic power of the person (ibid). The discriminatory behaviour of the people is the major instrument of social exclusion, which excludes certain people by virtue of their affiliation to certain groups (In India these certain groups are SCs, STs.), sometimes we find partial inclusion of certain groups of people (Some sub-caste of the SCs and OBCs) for the personal benefit of the dominating groups.

Practically, discrimination may take place in many forms and affect several areas of life including the provision of public goods and services. According to Thorat, Mahamallik and Sadana (2010) "whatever form the discrimination takes, it makes a distinction between persons categorically rather than individually" which means discrimination is based on group identity rather than individual characteristics. Indeed, this discriminatory behaviour of the social exclusion in India is based on the caste system and hence to understand the social exclusion we need to understand the caste system.

The social exclusion does not only prevail in India alone but in the world. It is found in most of the developed and underdeveloped countries of the world. It is based on race, class, region, and gender. Among these, race discrimination is more prominent and plays a dominant role all over the world. **Social exclusion**, or **Social marginalisation**, is the social advantage and relegation to the fringe of society. It is a term used widely in Europe and was first used in France. It is used across disciplines including education, sociology, psychology, politics and economics. Social exclusion is the process in which individuals or people are systematically blocked from (or denied full access to) various rights, opportunities and resources that are normally available to members of a different group, and which are fundamental to social integration and observance of human rights within that particular group (e.g., housing, employment, healthcare, civic engagement, democratic participation, and due process).

Alienation or marginalisation resulting from social exclusion can be connected to a person's social class, race, skin colour, religious affiliation, ethnic origin, educational status, childhood relationships, living standards, or appearance. Such exclusionary forms of discrimination may also apply to people with disability, minorities, LGBTQ+ people, drug users, institutional care leavers, the elderly and the young. Anyone who appears to deviate in any way from the perceived norms of a population may thereby become subject to coarse or subtle forms of social exclusion.

Social exclusion in India is visible in many forms but caste-based exclusion is more vital than other (Kumbhar, 2017). The persistence of the caste-based exclusion is due to the following outstanding feature of the "Hindu Society". (1) Segmental division of society, (2) hierarchy according to caste, (3) Restriction of social intercourse and feeding (4) Civil and religious disabilities and privileges of the different sections (5) restricted choice of occupation (6) restriction on marriage or strictly practising endogamy. Therefore, the structural basis of Hindu society is based on the idea of exclusion. However, social exclusion is not only understood in social practices but some economists also understand it through economic exclusion, as discussed by Sen (2000), Akerlof (1997), Baker (1957) Arrow (1973) and other economists. Let's understand how the different economists see social exclusion with their respective ideas

1.2 THE ECONOMIC THEORY OF THE CASTE SYSTEM:

It is found in the above section that caste-based social exclusion in India is more vital than any other form. Hence, we need to understand the economic rationale behind caste-based social exclusion. From the economics literature, we have tried to retrieve the understanding of the caste system through different approaches of economics, such as the neo-classical approach, the behavioural economics approach, the Marxian approach, and the Ambedkar approach, which has been discussed below.

1.3.1 THE MAINSTREAM/ NEO CLASSICAL APPROACH:

Akerlof (1976) is one of the few economists who has tried to construct a theoretical model of the Indian caste system in the neo-classical framework. Mainstream economists have recognised a few identical features of the Indian caste system. According to them, the system involved the division of people into exclusive social groups called "caste" separated and isolated through the institution of endogamy. It also involves the allocation of economic rights between the castes, however, the allocation of property rights among the castes is unequal and hierarchical. The neo-classical economists, therefore, recognised that the economic rights and the occupation of each caste are fixed, compulsory, hereditary and hierarchical. Various social ostracism measures in terms of social and economic sanctions and penalties serve as the most severe and powerful factor for the survival and perpetuity of the system.

The neoclassical approach operated under the idea that the occupation under the caste system is hereditary, compulsory, and endogenous. Thus, the rigidity of the system leads to the immobility of labour

across castes and brings division in the labour market. The allocation of labour might be less than optimal and therefore inefficient. Hence the economic outcome in the caste system is therefore less than Pareto efficiency optimum¹. Since the division of labour and occupation is unequal the result is income and wealth inequality and the distribution is skewed along the caste line. However, the neo-classical approach does not enter the analysis of poverty and inequality associated with the caste system.

1.3.2 THE BEHAVIOURAL ECONOMICS APPROACH

Behavioural economics is a new branch of economics developed in the last three decades. The unique thing about behavioural economics is that it gives economics a new turn. For the first time, economists and psychologists jointly tried to understand how people make decisions. Hoff and Walsh (2018) tried to see social exclusion through the lens of behavioural economics. As the precision has increased the researchers tried to understand the socio-psychological barrier to upward mobility. Hoff and Pandey (2014) researched that in India; low caste boys solved the mazes just as well as high caste boys when the caste was not publicly revealed but 23 per cent fewer mazes than their counterpart high caste boys when the caste identity was revealed in the mixed group. Behavioural economists found that this has happened because of the “Schematising power of the institution.” they have defined the institution as the “rules of the game.”

The rules of traditional economics (while dealing with particularly property rights) affect only the opportunity set over which people optimise. The institutions have no role over how individuals think. However, we understand from the social science perspective the institution has a “schematising power” It shapes the knowledge structure (the mental model) in such a way that an individual uses to process information in every spare of life, such as what he attends to, what he perceives and how he interprets the ambiguous signals (Hoff and Walsh, 2018). The caste as an institution as we understand has the schematising power to influence or guide an individual or a group of individuals in participating in different activities. The lower caste people are prevented from participating fully in social activities and what we called it as social exclusion. Social exclusion generates economic discrimination and discrimination as per the behavioural economics approach of four types such as implicit discrimination, Self-stereotype or self-censorship, challenge of adopting two worlds, and adoptive preferences.

- **The implicit discrimination:** there are specifically two types of discrimination discussed by the rational choice theory such as taste-based discrimination and statistical discrimination. The former is the idea of Becker (1957) where people discriminate based on social identity because they dislike the member and the latter is developed by Arrow (1973) where discrimination occurs only because of imperfect information. But other kinds of discrimination often fail to recognise what is called “**implicit discrimination**” otherwise known as **unconscious discrimination**. Implicit discrimination is different from explicit discrimination as both do not emerge from the same socialisation process. The person who is discriminating might not be aware of the mental association of the stereotypes, prejudices, or bias in the implicit discrimination. This type of discrimination is more dangerous than explicit discrimination. In India most offices and places there is a culture to call the fellow with their surname, and the surname is highly associated with the caste of the person. At the institution where I am working almost all the staff are unknowingly greeting the fellow with their surname. This practice might generate different types of consequences, for the high caste it is a symbol of pride and for the backward caste, it is a matter of humiliation. Sometimes, if they do not recognise the caste by their surname, they do not hesitate to ask about the caste identity of their fellow publicly.

- **Self-stereotype or self-censorship:** Most frequently we discuss discrimination by others and forget to analyse the self-stereotype or self-censorship (the self-discrimination). The stigma of social exclusion can be so deep as to “get into people’s hands” and degrade their self-perception. Social exclusion on the line of caste might be an example of self-discrimination in India. Traditionally some castes are considered as socially and intellectually superior to lower caste individuals. Though discrimination against lower caste individuals is illegal, the members of the lower caste group continue to face insult, atrocities, and discrimination against them in every spare of their lives. This process has divided the society into two and more mutually excluded endogamous groups. Hoff and Pandey (2006, 2014) have tried to understand the effect of making caste public. They asked the students to solve the mazes and paid for each maze they solved. For this test the participants

¹ The Pareto efficiency, also known as Pareto optimality, refers to a state in which it is impossible to make any one individual better off without making at least one individual worse off. In other words, a Pareto efficient outcome is an allocation of resources where no one can be made better off without making someone else worse off. This concept is named after the Italian economist Vilfredo Pareto. In our explanation, the inefficient allocation of labour in the caste system leads to economic outcomes that fall short of achieving Pareto efficiency. In the context of the caste system, the lack of optimal labour allocation results in an economic outcome that is less than Pareto efficiency, meaning there is potential for improving the well-being of some individuals without negatively impacting others

were randomly grouped with three conditions, (1) anonymous (2) caste revealed in the mixed group and (3) caste revealed in groups segregated by caste status (high or low). In the first condition, three high-caste and three low-caste boys were taken and their caste was not mentioned. In the second condition in the same way groups were formed but their caste identity was mentioned from the beginning of the session. The third condition was the same as the second condition, except the six boys in the session were all from high castes and all from low castes.

The result of the test was surprising, for the first condition (anonymous condition) the lower caste boys solved the mazes just as well as high caste boys. However, in the second condition (publicly caste revealing condition) the low caste boys solved the mazes 23 per cent less as compared to their counterpart high caste group, here the boys felt that “I don’t or don’t dare to excel”. In the third condition, segregation reduced the performance of both high-caste and low-caste boys. Here in this condition, the high-caste boys may have felt “Why try” They did not think of the high-caste boys as their real competition. This might be an example of self-discrimination.

- **The challenge of adopting two worlds:** It is often found that due to social exclusion and discrimination, people are living in two different worlds. The socially excluded group are living in their respective locality and they must move to the places where they used to work for their livelihood. for instance, the children who live in areas with high crime rates must have to set their mind to survive in their neighbourhood and the school also. The school environment is highly regulated by the formal authority and the norms of civility in comparison to high-crime neighbourhoods. This is widely visible in India. The severity of this type of situation is highly found in the village as compared to the town. In my workplace, the Boudh district of Odisha (one of my sample districts), it is found that the caste-based residential segregation like the Brahmana Sahi, Padhi Sahi (both are the residence of Brahmin and upper caste), the Dhoba Sahi, Keunta Sahi, Pana Sahi and many more. All these Sahi (the residents) are meant for their fellow caste only, it is mutually excluded in nature. Hence people from the lower caste residence often feel ashamed to reveal their belongingness. It is often observed by myself that the students from the Bapujinagar (The residents of the Pana/Ganda, Ghansi and Chamar, officially we can call them Schedule Caste faces difficulties within the campus to cope-up with their fellow students.

- **The adoptive preferences:** the speciality about the adoptive preferences is that the dominant group often see the domination as natural, normative, or even preferred. The degree of intensity of the adoptive preferences may vary in many contexts. For example, Guyon and Huillery (2014) find evidence of a large social class gap in aspirants of 14-year-old students in the area of Paris. In many countries, a high proportion of women report that a husband is justified in beating his wife for their disputes. One way for adoptive preferences to emerge is through a dogged trusting relationship that oppressed individuals may develop with their oppressors. This might be called Stockholm syndrome (Namnyak et.al. 2008). This term emerges from a dramatic event in Sweden. On a summer morning in 1973, a prison escapee entered a bank with a submachine gun and shot a police officer. In the failed bank robbery, he took four hostages and demanded that his prison mate be released from prison and join him. The government agreed. The two men barricaded themselves in the bank, with the hostage locked in the bank vault. Surprisingly, the hostages began to develop a bond with their captors and resisted cooperation with the police (Hoff and Walsh, 2018).

The example of the Stockholm syndrome exists at the level of the whole society. In Sierra Leone, villages are ruled by “paramount chiefs” from families originally recognised by the British colonial authorities. Villages with fewer ruling families have worse governance, child health, educational attainment, and income (Acemoglu, Reed and Robinson, 2014). One might expect that the village with proper development outcomes would have less respect for authority and be less satisfied with the ruling families. But this is not the case. The researcher found that villages with fewer ruling families reported higher respect for authority. In Maharashtra (an Indian state), it is found that the local government is very oppressive in villages in which the high caste owns most of the land assets. To increase the extent to which the landless depend on them, the high caste blocked many national pro-poor programmes. Yet the professed legitimacy of village government is higher in high caste-dominated villages. The low-caste residents are 14 per cent more likely to report trusting the landlord in the high-caste-dominated villages (Anderson, Francois and Kotwal 2015, Hoff and Walsh, 2018). Behavioural economics helps explain social exclusion in India, showing how caste identity affects decision-making and limits opportunities for lower-caste individuals. Implicit discrimination and self-stereotyping reinforce this exclusion. The institutionalized caste system shapes people's perceptions and behaviours, creating significant socio-economic gaps. The next section deals with the Marxian approach.

1.3.3 THE MARXIAN APPROACH

The Marxian economists shift their focus from the efficiency aspect of the analysis to the distributive aspect. Their primary focus is caste-based inequalities in the unequal entitlement of property rights. The economic structure of a given society as they understand should be the foundation of all institutions. The focus is on the dialectical relationship between the change in the focus of production (the means of production) on the

one hand and the relation of production (the mode of production) on the other hand. This type of relation is supposed to provide a more potential and dynamic source of institutional change.

The Marxian economic literature on the Indian caste system attributes the existence of the caste-based exploitative relation to economic forces. The survival of caste-based economic relations is often attributed to the feudal or semi-feudal mode of production failing in the domain, in the extra-economic power of the feudal lords and probably to be dispensed within the next progressive mode of production. The lack of microeconomic analysis of the formation of institutions limited the capacity of the Marxian economists to understand the dynamics of the caste system under the mode of feudal i.e. capitalistic mode of production and the economic relation which operates directly or indirectly under the control of the state.

1.3.4 THE AMBEDKARIAN APPROACH

Thorat conceptualise that Ambedkar and Marx agree upon two common views. The first one is the classical explanation has a material base and an integral part of the production relation. And the second one is the kinship system on which caste is not only an ideological relation thrown upon the theoretical superstructure but they are the unit of the relation of production (the mode of production). Ambedkar closely observed the role and impact of the social religious and philosophical foundations of Hinduism in the origin perpetuation and sustenance of the caste system. He has gone in-depth in this analysis and tried to capture how social, religious philosophical and ritual elements of Hinduism as an institution justify, support and perpetuate the caste system. Thereby shading more light on the structural and super-structural relation.

As per the neo-classical economists, Ambedkar also examines and analyses the economics of the caste system and untouchability from the economic efficiency and income distribution. According to Ambedkar the rationale behind the economic basis of the caste system is as follows.

1. **Fixed hereditary occupation:** society as an institution fixed the occupation with a special characteristic of heredity of occupation attached to it has left no space for individual capability, choices, and inclinations. The occupational segmentation was not only rigid but based on relation or exclusiveness. It is observed that the economic stratification and the factors (especially labour forces) movement existed in the other societies of the world except India. reference

2. **Inequality in property rights:** Thorat observed that the occupation in the caste is not only predetermined but the division in terms of various economic rights is highly unequal. The equality in property rights was the core of not only unequal but also graded or hierarchical. As one travels down the caste ladder the entitlement to economic rights gets reduced (reference). Hence the ultimate burden of having no economic rights comes under the share of the deprived caste.

How the entitlement of economic rights has been prescribed by the Indian social order left again no space for the deprived caste for their economic upliftment, as they are simultaneously deprived of the rights to choose an occupation accumulate property and get proper education. The only occupation prescribed to them by the social order was to serve the above three castes. The services provided by the deprived caste were not regulated and they were also not provided adequate economic security regarding the payment of wages and other things. From the writing of Ambedkar, It is again found that the economic relationship between the high caste and the deprived caste has put the latter into the slave-like character. A slave is a person who accepts from another the purpose which controls his conduct. Hence a slave is not the end itself, he is the only means of fulfilment of the end desire of the other. The slavery in India, in a more direct form with a graded inequality within it. It was not like the free system of the Western world. The duty of the master and slave has been prescribed or fixed according to the caste hierarchy i.e. the deprived caste only becomes the slave of the high caste and the reverse will not happen at all because they were not permitted to become the master of the other caste and even of their caste.

3. **Social and Economic ostracism:** To maintain the economic supremacy of the high caste, as Thorat has observed through the lens of Ambedkar's writings the instruments of the social and economic boycott were the main forms of penalties that prevailed against the violation of the code of the system.

Hence, it is found that the economic activities like the production, distribution and organisation system in India were/are however based on the principles of fixed hereditary occupation, inequality in property rights and socio-economic ostracism.

1.4 SUMMARY:

From the above discussion, we can summarise that mainstream economics (the neoclassical approach) has ignored the issues of caste., western economists tried to shed light on caste-based discrimination and how it works inefficiently but did not catch the real reason behind the caste-based discrimination and how the caste system work. The same has happened to the behavioural approach of economics theory. They have discussed implicit discrimination, Self-stereotype or self-censorship, the problem of adopting two worlds and adaptive preferences of discrimination. All are the revealing truth but we have to understand the deep cause of

discrimination rather than the consequences, once the root is found then it might be easy on our part to find the solution to the problem. To understand the real cause of the problem Marxian economists somehow tried and Ambedkar forwarded their idea with his in-depth research and got to know that the real cause of the caste system is to maintain the economic inequality within the society so that the social hierarchy may be maintained.

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