Invited Article

Is Affirmative Action Policy for Private Sector Necessary?

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While, from the very beginning, other countries have used various affirmative action policies in both public and private sectors, India confined such a policy only to the state and public sectors and excluded the vast private sector. This paper examines the issues involved in the extension of affirmative action policy to the private sector in India. In the light of empirical findings and international experience, the paper suggests that the government could enact the 'Equal Opportunity Laws' to provide legal safeguards against discrimination and proceed with the effective implementation of the recent initiative by the Ministry of Minority Affairs' Diversity Index. The incentive based system linked to Diversity seems to be a long-term and more efficient solution to ensure that the marginalized social groups will get a larger share in the private sector.

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Two Policy Directions

India today is caught in the grip of a querulous debate over developing reservation policies for groups and communities suffering from economic exclusion associated with caste, gender and religious identities. In this regard, two policy directions have emerged: "Economic Empowerment" and "Equal Opportunity" (Newman & Thorat 2007). The policy of economic empowerment is essentially directed towards improving the ownership of assets like agricultural land, capital for business, entrepreneurial skills, and education. There is a reasonable degree of consensus over the legitimacy of this strategy. However, when it comes to providing equal opportunity through instruments like reservations, we see considerable disagreement among private sector leaders.

With the liberalization induced narrowing down of public sector and unintended (back-door) de-reservation, there is a growing demand for affirmative action policy in private sector.

The intense discrimination and inequalities associated with India's caste system has made explicit use of affirmative and positive action policy (or what is called reservation policy) in employment, education and other spheres in respect of discriminated groups such as Scheduled Castes (SC), Scheduled Tribes (ST), and Other Backward Castes (OBC). However, this policy is confined to a shrinking government sector and the vast private sector remained outside its purview (Thorat 2008). In other countries, the affirmative action policy has been in practice both for public and private sectors. With the liberalization induced narrowing down of public sector and unintended (back-door) de-reservation, there is a growing demand for affirmative action policy in private sector as appeared in the election manifestos of political parties, e.g. Common Minimum Program of the UPA government. Views have been expressed both in favour and against reservation in the private sector. Employers' Associations have vocally opposed this move (Economic Times, 26 March 2004).

We examine here the issues involved in the extension of affirmative action policy to the private sector in India. Some of the arguments and evidence of this paper is heavily derived from the collaborative project on "Labour Market Discrimination" (2007) sponsored by Princeton University and Indian Institute of Dalit Studies and Thorat (2005). We have drawn mainly from theoretical and empirical literature to discuss the nature and consequences of caste based market discriminations on economic growth, inequalities and deprivation of discriminated groups. We provided empirical evidences on caste-based discrimination in the regular salaried urban labour market in public and private sectors. Finally, we discuss alternative remedies against discrimination used in different countries and draw lessons from international experience for affirmative action policy for private sector.

Discrimination Defined

Becker's (1971) theory of discrimination with testable behavioural implications based on a competitive labour market is often referred to as the neo-classical theory of discrimination. In his theory, the motivation for discrimination is based on a non-pecuniary variable generally designated as "taste for discrimination" against a group. Employers with taste for dis-crimination against blacks feel that the real burden is more than the money wage burden. The dissatisfaction felt by the presence of blacks in their firm is an additional burden. In the neo-classical theory not only the employers, but also the employees and consumers dis-criminate against a group. Discrimi-nation by employees is said to happen, when one group of employees, say males, refuse to work with another group, say females, even though females are as productive as males. In India, higher caste employers discriminate against Harijan workers. Discrimination by consumers occurs when they dislike goods and services produced by a group – may be scheduled caste, or blacks. Here the discriminatory behaviour is not based on any criteria like quality or price.

Defending Becker's theory Arrow (1972, 1973) defined discrimination in terms of employer's perception or reality. To him, employers discriminate not because of their 'taste to discriminate' but because of uncertainty. Arrow has shown theoretically, using consumer choice theory and theory of the firm, that firms where employers discriminate against, say females, would pay less than the male workers. Though a very similar discussion, Phelps (1972) prefers to call his as a 'statistical theory of discrimination'. Arrow and Phelps developed the theory of discrimination on the basis of lack of information about job applicants. In addition, there are a few other causes for the discriminatory behaviour, like social customs (Akerlof 1976, 1980) and monopsony in the labour market (Madden 1975). Acc-ording to social customs view, the discrimination as a phenomenon occurs due to certain social conventions maintained among the employers. Akerlof incorporates the social structure into his model to explain the economic phenomenon of income distribution and resource allocation. He assumes that utility depends not only on consumption but also on an individual's prestige and reputation in the society. Hence, a socially conscious individual will discriminate the group, as per the requirements of the social custom. His theory specifically deals with caste-based discrimination. Birdsall and Sabot (1991) note that employer's behaviour based on social customs is quite indistinguishable from that based on taste or prejudice.

These theories of labour market discrimination are invariably based on the micro economic foundation and have centred on the explanation of the causes for the discriminatory behaviour. Among the various causes elicited, the most probable are those due to taste of some individual (Becker 1971), uncertainty in the labour market (Arrow 1972, Phelps 1972), social customs (Akerlof 1976) and monopsony in the labour market. Only a few of these theories further delve into the effects of discrimination on the economy. Tzannatos' (1987) general equilibrium model made the first attempt to estimate the discrimination and its effects on income. The main aim of his study is to find out what would happen to wages and profits if the wage differentials by sex were deliberately changed. For empirical application of this model, one would need to know (i) the labour demand and supply curve of males and females, (ii) the currently available capital stock, (iii) the nature of the production function, (iv) the demand schedule for the final product, and (v)

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the elasticity of substitution between men and women.

A few economists have tried to grapple with the issue of caste and untouchability based economic exclusion and discrimination in India. In social science literature, the concept of social exclusion is defined as "the process through which individuals belonging to some groups are wholly or partially excluded from full participation in the society in which they live" (Haan 1999). Two defining attributes of exclusion are particularly recognised: (i) the multiple aspects of discrimination and the societal processes and (ii) the institutions that are implicated in deprivation. Amartya Sen (2000) draws a distinction between the situations where some people are being kept out (at least left out) and where some people are being included (may even be forced to be included) in deeply un-favourable terms, described as "un-favourable exclusion" and "unfavour-able in-clusion". The "unfavourable inclusion", particularly of those with unequal treatment or unacceptable arrangement, may carry the same adverse affects as the unfavourable exclusion does. The notion of unfavourable inclusion appears to be quite close to the concept of "market discrimination" developed in the mainstream economic literature related to race and gender (Becker 1971). Discriminations thus manifest a situation, which involves exclusion or outright restriction on various market entry and/or selective inclusion with unequal and unfavourable treatment in participation in various market transactions.

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Economic Implications

Why the governments in developed and developing countries are concerned about economic discrimination? Is discrimi-nation only an equity issue or it also involves economic costs to the society? Are the costs it imposes on the society more social and political than economic? The insights from mainstream economic theory of discrimination indicate that the economic discrimination, particularly the market discrimination, hampers economic growth, brings unequal income distribution and deprivation for discriminated groups and creates potential situation for inter-group conflict (Birdsall & Sabot 1991). Thus concern about exclusion and discrimination arises not only because of the consequences on economic inequality and the deprivation that they bring to the excluded and discriminated groups, but also due to their adverse consequences on economic development. The discrimination also affects productivity by reducing the magnitude of investment in human capital by the discriminated group and the return on this investment (Birdsall & Sabot 1991).

Consequences of discrimination on income distribution are quite obvious, in so far as market exclusion involves, especially, in the denial of access to employment, and fair and equal wage payment to discriminated workers. Discrimination, particularly in labour market, brings income losses to discriminated groups due to wages/salaries lower than their productivity. Exclusion and discrimination in access to other markets for income earning assets such as agricultural land, capital and other factors also reduce the income generating capacities of the dis-criminated groups. Further, pre-market discrimination in access to education and skill-development also kept the discriminated group at lower level of human development and reduced their chances for employment.

The policy implication of neo-classical theory calls for interventions to overcome the consequences of market failure associated with market discrimination. This also implies that market interventions in some form are necessary not in labour market alone, but also in others like land, capital, products and social services such as education and housing, if certain groups face discrimination in exchange carried through markets and non-market channels. It is these insights from the theories which induced and justified the adoption of various types of affirmative and positive action policies in favour of discriminated groups in USA and other western countries.[1]

1 The examples are USA, Britain, Northern Ireland, Germany and Yugoslavia, Latin American countries like Brazil, Bolivia, Peru, African countries like Nigeria, Sudan, South Africa, Kenya and Asian countries like Malaysia, Pakistan, China, Japan and India.

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When the anti-discrimination policy was first introduced in India in 1931 and formalised latter in 1950, it was advocated mostly on the consideration of violation of citizen / human rights, particularly of low caste untouchables. Ambedkar who pioneered the affirmative action policy (the efforts for which began in 1919, formalised in 1931 under the Poona Pact and finally got definite legal shape in 1950) based most of the arguments from human rights perspective, drawing largely from theoretical development in political science. Therefore in the latter period, by and large, the discussion and debate on affirmative action policy in India is devoid of economic logic and justification. This is in contrast to the large body of literature on the analysis of economic discrimination of race, ethnicity and gender in the western world (Darity 1997). Ambedkar developed a general theory of caste as back as in 1916, but economic underpinnings were elaborated in detail much later in the 1940's and 1950's (and appeared in print only in the 1990's).[2] It is only in the 1980's and later that some attempts were made most surprisingly by the western economists to provide the economic interpretation and consequences of caste system (Akerlof 1976, Scoville 1991, Lall 1991).

2. Ambedkar 1916, 1936 & 1987 (First Published)

Since the main justification for affirmative action policy in the West emanates from the mainstream theoretical economics, we limit our discussion to this branch of writing. This theoretical strand generally agrees on three underlying principles and customary rules that govern and structure the production, organization and distribution under the caste system. These three unique features of the traditional caste system are: (a) fixed occupation (property rights) for each member of caste by birth and its hereditary continuation; (b) unequal distribution of economic and social rights related to occupation, property, employment, wages, education, etc. among different caste groups and (c) the provision of strong system of penalties-for enforcement of the system.

Labour being a part of production process, labour market discrimination obviously is a part of the exclusionary process of occupation. At a theoretical level, labour market exclusion and discrimination would manifest in (a) exclusion or complicit restriction on employment from one caste-occupation to another and (b) unfavourable inclusion, that is, access or entry to labour employment in another caste's occupation, but with unequal treatment in wage payment and other terms and conditions of work. This would essentially mean unequal and lower wages (lower than market or lower than the wages of other groups with same productivity level) to workers of discriminated groups, along with unequal working conditions governed by the caste related customary coercive norms and obligations (Thorat 2000). In terms of consequences, Akrolof-Scoville-Lall economic interpretation implies negative outcomes of caste based market discrimination for economic growth and income distribution. This model thus would argue that, given the segmented and imperfect character of labour market, the economic efficiency of the caste system would be lower than the posited in the model of perfectly competitive market, a second best alternative to Pareto optimum.

Ambedkar, however, argued that efficiency and productivity of labour are adversely affected by number of other ways also, namely due to the nature of the customary rules that regulate employment, wages, education, dignity of labour under the caste system. In his view efficiency of labour suffers severely in another manner also. The economic pursuit in caste system is not based on individual choice, the individual sentiment, and preference. The principle of individual choice is violated in the caste system in so far as it appoints a task to an individual in advance, selected not on the basis of training or capacities, but on that of social status of parents. The social and individual efficiency requires us to develop the capacity of an individual to the point of competency to choose and make one's own career. This is nearly absent in the scheme of caste system. Further more, some of these occupations are considered polluting or impure and therefore socially degrading, the social stigma of impurity and pollution in fact

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reduce the social status of persons engaged in them. Forced into these occupations on account of their caste origin, people do not derive job satisfaction, and indeed constantly provoke them to aversion, ill will and desire to evade. The caste system also puts a low value on 'physical' work, as compared to 'mental' work, with the result that the dignity of physical labour is nearly absent in the work ethics of caste system. Consequently, lack of dignity of labour adversely affects the incentive to work. Thus, in view of the standard mainstream theories of discrimination (and also Ambedkar 1936), judged by the standard criterion of economic efficiency, the caste system as an economic organisation lacks all those elements or assumptions, which are required to fulfil the conditions for optimum economic outcome.

Beside the general negative impact on income distribution, another negative impact of labour immobility across occupations and the social stigma associated with certain occupations related to employment, which has been emphasized both by Ambedkar (1936) and Akerlof (1980). By restricting the mobility of labour across caste occupations and thereby not permitting readjustment of employment, caste becomes a direct cause of much of 'voluntary unemployment' among the high caste persons and 'involuntary unemployment' among the low-caste persons. The high-caste Hindu would generally prefer to be voluntarily unemployed for some time than to take up an occupation not assigned to his caste. On the other hand for the low caste untouchables the restrictions to take other caste's occupation compel them to remain involuntarily un-employed. Insights from economic theories indicate that market discrimination is a typical case of market failure and brings huge economic inefficiency and adversely affects the prospects for economic growth and also involves unequal opportunities to discriminated group, all of which jointly create a situation of high deprivation and poverty, particularly among the low caste untouchables.

Impact of Reservation on Education & Employment

One of the arguments by private sector is that government and public sectors have lost their credibility due to SC/ST reservations since Independence (Times of India, 10th September 2004). There are limited estimates about the impact of reservation in higher education. The scanty evidence indicates that the student enrolment has increased and that under reservation also increased. Rao (2002) found the proportion of graduates in 1981around 3.3% for SCs and 0.8 per cent for STs, far below their shares in total population. By late 1990's SC proportion in the total

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students enrolled has risen to 7.8% and STs proportion to 2.7 per cent. However, compared to their percentages in total population, 16 and 8 per cent respectively for SCs and STs, the enrolment is very low. It is difficult to estimate how many students have benefited directly from reservation. One estimate indicate that in 1996-97 roughly 5,10,000 SC students and 1,80,000 ST were enrolled. Of these, roughly about 2,00,000 SC and 45,000 ST students may have been enrolled in desirable programmes in higher education (where reservation matters). Weisskopf (2004) estimates clearly show that there is some impact of reservation on SC/ST enrolments. Reservation has certainly helped but there are limitations in any policy with the way it is implemented.

Private sector has created a gross misunderstanding that the reservation policy is based on less merit. According to the Constitution reservations for discriminated groups are subject to efficiency, which is judged by required qualifications. The quota baiters presume that SCs/STs who will be inducted based on a fixed quota will not have the merit. The "eligibility" criteria is not often the focus of the debate when anti-reservationists simply conclude that fixing a quota for a backward class is like "forfeiting" merit, skills and efficiency. Then how about selecting only those "backward" candidates who are eligible? For instance, a software firm has the basic eligibility that only a Bachelor of Engineering with certain aggregate marks can appear for screening test. The fact is that those SCs /ST's who do not clear GATE and do not pass graduate exam are never selected for IITs/IIMs. The Dalits and Adivasis basically want the same for the private sector, a quota for their "eligible" candidates. Needless to say even after a few decades of quota, IITs and IIMs have not lost any credibility contrary to the industry argument.

There has been a striking increase in the numbers of SCs/STs government employees. In 1956 there were 212 thousand SC employees, which increased to 641 thousand in 1991 and 540 thousand in 2003. The correspond-ing increase in the percentage of SC employees to total government employment enhanced from 0.14% in 1956 to about 17% in 2003, fairly close to their shares in population. In the case of STs the numbers increased from 22 thousand in 1956 to 211 thousand in 2003 with a corresponding increase in percentage, from 0.01% to 7 %. Similarly, the number of employees in public sector undertakings has increased from 40 thousand in 1970 to 296 thousand in 2003 for SCs and from 12 thousand to 138 thousand for STs during the respective years. In the case of nationalized banks the number has increased from 4 thousand in 1972 to 143 thousand in 2000 for SCs and from 400 to 43 thousand for STs during the same period. The corresponding percentage has increased from 1.89 to 13.32 for SCs and from 00.19 to 4 for STs. Similarly, the number of SC employees in nationalized banks increased from 55 thousand in 1978 (11%) to 143 thousand in 2000 (17%) and for ST the number increased from 8 thousand (1.8%) to 43.65 thousand (4.9%). These do not include many government spheres like educational institutions and when these sectors are included the absolute number under reservation will increase further. Thus, during the last fifty years or so the share of SCs/STs in the government services has improved significantly. There are however variations among different type of jobs. Generally the reservation is close to the required percentage in class C and D jobs but less in the case of A and B categories.

Like the top educational institutes, the public sector units continue to do well. A recent survey by FICCI has reported that the profits of the PSU banks are up by 60% from the previous years while those of the private sector banks and foreign banks are lagging much behind. How come SBI, which has been employing reserved category people, keeps topping the list? Why ONGC, another public sector giant is still the biggest fortune 500 India company? The same can be said of other public sector companies like LIC, IOCL etc. who recruit backward class people and still fare better than the private counterparts who claim to have only "meritorious" people. Of course, there are public sector units that are doing badly but then the same is true of private sector also; recent turmoil in Global Trust Bank (GTB) is the best example. If this is the case then why are the SCs/STs labelled as "unfits"? Bajaj Company claims that 34% of the workforce in Bajaj Auto is from SCs/STs/OBCs (Ravikiran Shinde, undated). If Bajaj recruited people without seeing their caste then how does the company know that they have 34% SCs/STs/OBCs in their company? It means that even though those people have been doing as well as any other, someone has made an attempt to find out their caste background? If Bajaj had recruited the same 34% people as part of the "Affirmative Action" then would the company have said that they are no good?

Reservations are resisted in various manners.

The reservation policy in employment and education has succeeded to a greater extent in getting the SCs/STs into government services, in educational institutions and other bodies at lower levels. However, the actual reservation in employment and educational institutions falls short of targets in some categories of jobs. The reservation tends to be clustered in certain services, departments and grades. For instance, in 2003 the C and D grade posts account almost ninety five per cent of total SC/ST posts. The target in the case of grade C and D are close to population mark of 16% for SCs and 7.5% for STs, but falls short in grades A and B and also in several categories of technical jobs including the jobs in universities. The process of achieving reservation is slower than announcement level and scope of reservation. Re-servations are resisted in various manners. The resistance is much more in higher-grade jobs, and also in educational institutions and less in lower categories of jobs and in admission. Delay and resistance are particularly found in the case of state aided autonomous institutions which are required to get approval of their decision making bodies for reservation.

In admissions to educational institutions, the SC/ST share is much less in preferred institutions. There is need to have substantial catching up to reach the required level of 16% for SCs and 8% for STs. Over a period of time, the Department of Personnel has taken some steps and developed procedural safe-guards to overcome these problems. While the rules regarding the reservation are in place the problem lies with implementation. There is selective resistance in various forms by the bureaucracy. Thousands of SCs/STs who suffered from discrimination and non-implementation of reservation have filed complaints with the Commission for SCs/STs since its inception in 1950. Many more do not complain due to lack of information, delay, and less positive outcomes of such complaints.

For effective implementation of reservation policy in jobs, the government tried to develop some safeguards which include maintenance of a Model Roaster for giving effect to reserved posts, (that is identifying the vacancy as reserved or unreserved), separate interviews for SC/ST candidates, Liaison Officer to oversee reservation policy in each office, representative of SCs/STs on selection boards, banning de-reservation of reserved posts, banning the full exchange of post with general category candidates if SC/ST categories are not available. One of the main limitations of the present reservation policy is the absence of Reservation Act and provisions of monitoring those who wilfully avoid the implementation of reservation policy. Recently, the government has taken the initiative to enact "Reservation Act" with a provision for action against those who wilfully fail to implement the reservation policy. Another limitation of reservation policy is that it applies to only government and government supported sector and exclude the private sector. Notable exclusion is the private industrial / service sectors and educational institutions.

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Data Sources

In this study we have used the recent (2004-05) National Sample Survey Organisation (NSSO) round of data for the empirical analysis. We confine ourselves to urban data. The survey details and the aggregate estimates are given in NSSO. The individual-level sample used is restricted to those workers in wage employment and aged between 15 and 65 years old. The survey provides information on human capital and other labour market characteristics.

Econometric Methodology

Four different empirical approaches for studying caste discrimination can be found in prior research. The first of these includes caste as a predictor of earnings from the characteristics of all workers (a single-equation technique). Unfortunately, this approach yields a biased result because it assumes that the wage structure is the same for both NSC (Non-Scheduled Castes) and SC/ST (Scheduled Castes) (Gunderson 1989, Madheswaran 1996). The second approach employs a 'decomposition technique' to partition the observed wage gap into an 'endowment' component and a 'coefficient' component. The latter is derived as an unexplained residual and is termed the 'discrimination coefficient'. This method was first developed by Blinder (1973) and Oaxaca (1973) and later extended to overcome the index number problem (Cotton 1988, Neumark 1988, Oaxaca & Ransom 1994).

The third 'expanded approach' incorporates the occupational distribution into the earnings estimation, and was first proposed by Brown, Moon and Zoloth (1980). Both the Oaxaca (1973) and Cotton (1988) and Neumark (1988) methods can be criticized on the ground that they don't distinguish between wage discrimination and job discrimination. Brown et al. (1980) incorporate a separate model of occupational attainment into their analysis of wage differentials. Banerjee and Knight (1985) used this de-composition by introducing a multi-nomial logit model, which could estimate both wage and occupational discrimination for migrant labourers in India, where the latter defined as "unequal pay for workers with same economic characteristics, which results from their being employed in different jobs". One can combine elements from Oaxaca and Ransom (1994) and Brown et al. (1980) to form a more detailed decomposition analysis. One advantage of using this expanded method is that both job discrimination (differential access to certain occupational positions) and wage discrimination (differential earnings within the same job) can be estimated simultaneously (Madheswaran & Attewell 2007).

The fourth approach is the quantile regression technique, which assumes that the q th quantile of the conditional distribution of the log wage of worker i (lnW_i) is a linear function of a vector of covariates X_i representing the individual characteristics. The main interest of quantile regression over ordinary least squares is the possibility to estimate the marginal effect of a covariate (for example, the caste) on log wage at various points of the wage distribution and not only at the mean. Only a few studies have used the quantile regression technique. Some of these have examined the gender wage gap across the wage distribution (Albrecht et. al. 2003, Arulampalam et. al. 2007) and others the public-private wage differentials (Melly 2005, Lucifora & Meurs 2006) in European countries. All of these studies used the quantile regression decomposition technique that is due to Machado and Mata (2003), an extension of the Oaxaca-Blinder decomposition (e.g., Oaxaca 1973) in the sense that, instead of considering only the difference between the means of the two distributions, it identifies the sources of the differences at various quantiles. Following their methodology, we decompose the difference between the Non-SC/ST and SC/ST logarithm of wage distributions in two components: (i) a component that is due to the difference in the distribution of covariates between the Non-SC/ST and SC/ST groups and (ii) a component that is due to the differences in caste group-specific returns to these covariates at various quantile.

Caste Discrimination in the Public & Private Sectors

We initially adopt a single equation method. Due to space constraint, all the econometric results have not been produced in this paper. The detailed results are available in Madheswaran and Attewell (2007). We found that, compared to forward caste employees, SC workers earned 8% less in public sector and 20% less in private sector in 2004-05. These coefficients are all statistically significant. A single equation approach assumes that the slope coefficients are the same for all social groups. In order to over come this limitation and also since the reservation system that sets aside a certain proportion of jobs for SC/ST applicants operates only within the public sector of the Indian economy, we estimated separate earnings functions for the public and private sectors for each social group, and then decomposed the earnings differentials between forward caste and SCs for each sector. It is useful to look at the caste-based wage inequalities separately for the public and private sectors of the urban economy. The decomposition result is given in Table 1.

Table 1: Decomposition Results for the Public & Private Sectors, 2004-05 (%)

Components	Pubic Sector	Private Sector
Endowment Difference	77	59
Discrimination	23	41

Claims that discrimination does not occur in the Indian urban private sector are based neither on economic theory nor on empirical facts.

The SC workers are discriminated against both in the public and the private sectors, but that the discrimination effect is smaller in pubic sector. The government policy of protective legislation seems to be partly effective. Discrimination still arises in the public sector in part because the reservation quota for lower caste applicants is close to full only in the less-skilled class C and D jobs but is far from filled in the higher category A and B jobs, where the higher castes predominate.The evidence provided by these decompositions contradicts the argument that there is no discrimination in the private sector. Claims that discrimination does not occur in the Indian urban private sector are based neither on economic theory nor on empirical facts. When we included occupational variables in the earnings equation, the final calculation of discrimination coefficient is reduced at least by 5 percent in public sector and 7 percent in private sector. This result implies that discrimination partially operates through occupational segregation and motivated us to estimate job discrimination using expanded decomposition method. Further, we analyzed occupational attainment within the framework of a multinomial logit model. Using the occupation attainment results, a predicted distribution for Scheduled Castes ($\hat{P}^{SC}$), and for Non-Scheduled Castes ($\hat{P}^{NSC}$), was obtained. The earnings functions by occupation are needed to complete the decomposition based on the full model. Table 2 reports a detailed decomposition.

Table 2: Expanded Decomposition Results- Urban India, 2004-05

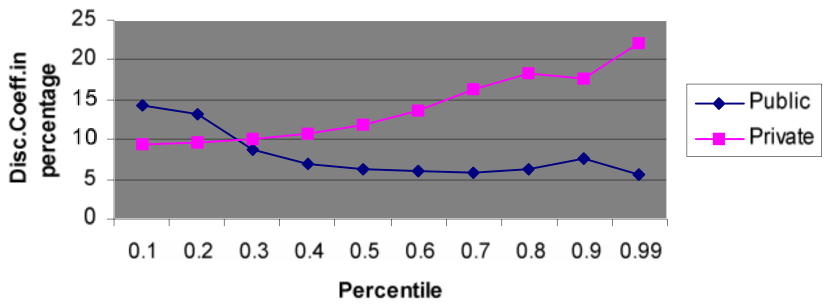
Components	Public Sector	Private Sector
Wage Explained (%)	35	20
Wage Discrimination (%)	20	25
Job Explained (%)	30	19
Job Discrimination (%)	15	36

The estimates in Table 2 show that the discrimination accounts for a large part of the gross earnings difference, with job discrimination (inequality in access to certain occupations) being considerably more important than wage discrimination (unequal pay within a given occupation, given one's educational and skill level) in the regular salaried urban labour market. This result is consistent with an earlier study in India by Banerjee and Knight (1985). He reported that job discrimination is the greatest in operative jobs. Our results somehow contradict one of their findings that job discrimination is less in white-collar jobs. However, their study focused on migrant workers in Delhi, a small sample compared to the nationwide survey like NSS.

The degree of discrimination against disadvantaged group is very high in private sector.

We have also used the Machado and Mata (2005) method to decompose the wage gap between others and SCs within public and private sectors in various quantiles. The unexplained part (discrimination) of the wage gap reported in the Fig.1 is lower within the public sector organizations than within the private sector, except in lower wage distribution. Indeed, public sector is always below the private sector across the entire wage distribution. The unexplained part of the wage gap decreases within public sector when we move along the wage distribution where as opposite is true for private sector. Whatever the methodology we use, there is clear empirical evidence, which exhibits the degree of discrimination against disadvantaged group is very high in private sector.

Fig. 1: Discrimination Coefficient by Sector- Quantile Regression - Machado & Mata Decomposition Results



These results corroborate with Papola's (2005) study on modes and mechanisms practised by the private sector industries that amply demonstrate that the system involves social exclusion and discrimination throughout the period of modern industrial development. Recently, the Princeton University's and Indian Institute of Dalit Studies' collaborative project team consisting of S.K.Thorat, Katherine Newman, Paul Attewell, Ashwini Desphande, Surinder Jodkha and Madheswaran (*Economic & Political Weekly*, October 13, 2007) argued that there is serious evidence of continued discriminatory barriers in the formal, urban labour market even for highly qualified Dalits and Muslims based on field level study. Thorat et.al. (2007) provides the results of a field experiment, which found that low caste and Muslim applicants, who are equally or better qualified than high caste applicants, are significantly less likely to pass through hiring screens among employers in the modern, formal sector in India. Jodhka and Newman (2007) present the results of a qualitative interview-based study of human resource managers, focusing on hiring practices. This research suggests that managers bring to the hiring process a set of stereotypes that make it difficult for very low caste and very high caste applicants to succeed in the competition for positions, while advantage falls to the middle. Deshpande and Newman (2007) focus on the experiences of equally qualified Dalit and non-Dalit cohort-mates from three major universities who are moving out into the labour market at the same time. This still ongoing long-itudinal project shows that despite similar qualifications, the two groups expect and, true to form, experience divergent outcomes in the labour market. Dalit students bring weaker connections to the task and are far less likely to find jobs in the private sector.

Dalit students bring weaker connections to the task and are far less likely to find jobs in the private sector.

Coupled with the shrinking size of the public sector, all the empirical observations have prompted us to argue in favour of extending reservations or some form of affirmative action to the private sector. As Jodhka and Newman (2007) make clear, this is firmly opposed by private sector leaders, partly because they prefer to avoid any form of regulation over hiring, but also because they are convinced that there is no problem of caste or religious prejudice in modern India. We believe the debate over policy remedies should proceed in the light of empirical evidence.

International Experience & Recent Indian Initiatives

How to extend the existing public sector affirmative action policy to the private sector? How can we bring the growing multi-national companies in India under the purview of affirmative action policy like United Nations? The policies vary from country to country depending on the groups involved and the nature of discrimination. Two aspects of anti-discrimination/ affirmative action and other positive measures are in practice in many countries and relate to: (i) type of the economic sector or market for which the anti-discrimination and affirmative action measures are developed and (ii) the methods or administrative procedures used in their application in practice for the private and public sectors. Most of these countries such as the USA, Northern Ireland, South Africa and Malaysia have mainly developed policies for religious, racial and ethnic minority groups for agri-culture land, labour, capital and other markets and non-market transactions, covering multiple economic spheres. Second aspect relates to methods and procedures used to operationalize the policy of anti-discrimination and affirmative action measures. Countries have used at least two kinds of pro-cedures or methods. First is the legal protection against discrimination in the form of "Equal Employment Opportunity Laws (EEOL)." These laws prohibit private or public employers from discrimination of workers or persons based on group identities like religion, gender, colour, ethnicity, national and social origin and provide legal safe-guards to discriminated groups in the event of discrimination in employment and other spheres of economic activities. Equal Employment Opportunity Law (Executive Order 11246) in USA and Fair Employment Act in Northern Ireland are some examples.

Second relates to "Reparation or compensation," defined as 'payment for an acknowledged grievous of social injustice to group' (Darity 1997). In the context of USA, Darity observed

"Affirmative action does not, in general, rest on the goal of compensation for past injustices, nor does it provide a vehicle for redress of wealth disparity - affirmative action programs largely have been designed to address the question of present discrimination." Instruments of compensation or reparation are specifically used as payment for the denial of property rights and other rights in the past, causing intense deprivation to a particular group. In the USA several estimates of income loss due to discrimination and loss of ownership of capital assets due to slavery of African Americans, have been put forth for claims of compensatory payment (Darity 1997).

Majority of socially disadvantaged group are mainly working as wage labour in India –mostly as casual and a small proportion as regular salaried. Vast majority are in the agricultural and private industrial and service sectors. Since there is high involvement of socially disadvantaged people as casual labour in agriculture and in urban industrial /tertiary sectors, this compulsive involvement in the labour market ensures large-scale participation. However given the selective discrimination in hiring and wage payment and under most unfavourable terms and conditions, there is a need for legal provisions in the form of "Equal Employment Opportunity Act" (EEOA), so that legal safeguards are in place against labour market discrimination in hiring and wage payment (Thorat 2005).

In the industrial and service sectors the discrimination in employment is possibly of high order in certain categories of jobs, if not in all. Here is a need to use both the strategies of legal safeguards in terms of equal employment opportunity act and affirmative action identical to present reservation policy in public sector employment. Equal employment opportunity act will provide legal protection against discrimination in hiring and the reservations with certain fixed share in certain categories of jobs and will ensure fair participation of marginalized groups in industrial/ tertiary private sector employment. To bring transparency and to monitor the programme, India should have Equal Employment Enforcement Office, in the line of USA and Northern Ireland.

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The word 'reservation' has become corrupt and has lot of political factors. Instead of 'reservation in private sector', what must be said is that "any private company seeking any government subsidy, tax relief, special benefits in exports and imports etc, or tendering for any govt. contracts, supplying any good to govt. agencies etc. must demonstrate that they share the social responsibility and consciously employ certain percentage of people from different social backgrounds". This is not 'reservation' but affirmative action on the part of the private companies. While there are successful examples of affirmative action and representation around the globe, how long are we to continue to cry foul over the merit -or the lack of it- of India's marginalized? In the USA, black people's increasing representation in private sector has increased the consumer power of the companies and in turn increasing their profits. Similarly, by giving good white collar jobs to eligible SCs/STs, private companies can ensure that there is not only a right mix of people in work environment that will not only breed new ideas, but will be useful in understanding the customer needs more effectively because of their entirely different social backgrounds. And this can directly help in achieving social and economic equality.

Recently, CII along with ASSOCHAM (2007) has drafted a report for Affirmative Action in India, a plan of how India Inc is to go about implementing Affirmative Action policies at present and in the future. FICCI has also readied its report on Affirmative Action. The report recognizes that the industry does have a role in ensuring inclusive growth, though a small one. The report has 3 cornerstones: (i) The organized labour is just 2 percent of the total work force and no matter what the private sector did; the problem of segregation and discrimination cannot be solved so easily. (ii) The industry would like to be a part of the solution and not give the complete solution. It should enhance the competitiveness and not erode it. (iii) Whatever needs to be done should be done voluntarily and not forced by legislation on the industry. The report has 4 specific *areas*-at the work place, entrepreneurship development, employability and education where the industry bodies will take concrete steps to ensure inclusive growth. CII's prominent members such as the Tata group of companies, M & M, Infosys, Godrej, Hindustan Unilever Ltd, SRF Ltd are already signatories to the adopted code of conduct that mandates positive discrimination. The main drawback of the corporate sector's initiative is based on a voluntary basis without any legal provision or monitoring mechanism. In this context, the government should review the initiatives and if the results are not up to the mark, it just might go back to bringing in the legislation on job reservation in the private sector.

Diversity Index

Recently, Ministry of Miniority Affairs has formed an Expert Group under the Chairmanship of Amitabh Kundu (2008) to identify areas of concern in the context of unequal access of different segments of population to public space and institutions, to propose an appropriate Diversity Index based on which work out the modalities for implementation of policies and programmes. It simply looks at the employment distribution across religion, caste and gender categories and gives the organization a value. Higher the value, more diverse that organization is. While the task of the Sachar Committee was to evaluate and enumerate the conditions of a specific minority group, the idea of a Diversity Index is floated to operationalize a broader notion of diversity, countering the tendencies of discrimination and deprivation in production, distribution and social sectors in India. The need for such an index stems from that there is definite evidence of community based dis-crimination and deprivation in all social spheres. Admitting the com-plexity of representing diversity across multiple social spaces in India, the expert group attempted a pathway beyond reservation, in developing an index to measure diversity for the purpose. In ecology, a Diversity Index is a statistic that measures the bio-diversity of the ecosystem by measuring the number of species in the ecosystem and their abundance (species richness and species evenness). Several of these have been adapted for the measurement of social diversity, which is understandably multi-dimensional. For instance, the "USA TODAY" in 1991 attempted to measure that any two people are of a particular race in the US society. Faced with operationalising the proposed Diversity Index, the expert group has recommended a diversity commission entrusted with the complexity of applying incentive and disincentive mechanisms. It is difficult to do away with reservation because of political factors. It is high time to try incentive-based systems linked to diversity, which seems to be a long-term and more efficient solution. Diversity may be a part of affirmative action and it is an important way of intervening in the social milleu and this will become major movement in the country.

Concluding Observations

While from the very beginning other countries have used various affirmative action policies both in public and private sectors, India confined such a policy only to state and public sector and excluded the vast private sector where more than 90 per cent of low caste untouchables and tribal still earn their livelihood. In this sector there is no protection against economic discrimination. Due to further narrowing down of public sector, there is growing demand for some kind of affirmative action policy for the private sector. Due to discrimination of minority social groups in various markets and non-market exchange, these groups suffer from societal discrimination in multiple economic and social spheres. Therefore, the legal safeguard and affirmative action policy for private sector should cover all markets and not just the employment market. In this context, two remedies are suggested. First, it is necessary that the government enact the 'Equal Opportunity Laws' to provide legal safeguards against discrimination. The legal safeguards then should be supplemented by more positive and affirmative action to improve their effective access and participation in employment and various other spheres such as agriculture land market, capital market, producer and consumer goods market and including the social service like education, housing, etc. Second, since the reservation has become a political issue, an incentive based system linked to diversity seems to be a long-term and more efficient solution.

Therefore the Diversity Index suggested by Amitabh Kundu (2008) will be helpful to ensure that the marginalized social groups will get a larger share in the private sector.

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