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## **The Labour Market in India**

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# Chapter 1

## The Labour Market in India

### 1.0 Prologue

This is a book about inequality in labour market outcomes in India. Inequality is studied in terms of differences in outcomes among persons aged 21–60 years belonging to a variety of social groups — the groups considered in this book are Scheduled Tribes (ST), Scheduled Castes (SC), non-Muslim Other Backward Classes (NMOBC), Muslims, and the Forward Castes (FC)<sup>1</sup> — and between men and women. The outcomes that are studied are: (i) the risk of not being able to find a job; (ii) the likelihood of finding a “good” job in terms a regular, salaried wage job as opposed to a “bad” job as a casual wage labourer; (iii) the likelihood of finding work in desirable occupations (professional and executive, clerical) as opposed to undesirable occupations (agricultural labourers or construction); (iv) the likelihood of finding permanent jobs as opposed to casual jobs; (v) wages from employment.

For each of these outcomes the book points to inter-group *disparity* in the proportions of their members that meet with labour market “success”. There is no doubt that, on the face of it, high success rates are a prerogative of persons from the FC while Muslims and persons from the ST, SC, and (to a lesser extent) the NMOBC have to content themselves with lower rates. The moot point, however, is the degree of inter-group disparity in success rates that can be explained by differences between the groups in the attributes that make for success (*attributes effect*) and how much can be explained by bias which leads employers to treat persons from the different groups differently — acting in favour of some and against others — even though these persons do not differ in terms of attributes. This is the *discrimination effect*. Differences between the groups in their average likelihood of labour market success can then be expressed as the sum of the attribute effect (that is, differences in attributes between the groups) and the discrimination effect (that is, differences in the treatment of equals from the various groups). The *raison d'être* of this book is to evaluate the observed inter-group disparity in the labour market outcomes listed above in terms of the respective contributions of the attributes and the discrimination effects.

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<sup>1</sup> Where Forward Castes include Christians, Sikhs, and Jains who are not from the ST/SC/NMOBC.

This evaluation, which is the product of the author's original research, is conducted on the basis of two sets of data. The first relates to unit record data from the latest available round (68<sup>th</sup> round: July 2011–June 2012), and the round pertaining to a decade earlier (55<sup>th</sup> round: July 1999–June 2000), of the National Sample Survey (NSS) of Employment and Unemployment. The NSS employment data give the distribution of its respondents — who are distinguished by various characteristics, including their caste, religion, and educational standard — between different categories of economic status. Of these categories, the three which are the most important are: *self-employed*; *regular salaried or wage employees*; and *casual wage labourers*. The second relates to unit record data from the Indian Human Development Survey relating to the period 2011–12. This Survey provided details about the occupations, the security of job tenure, and wages of individuals drawn from over 42,152 households in 384 districts, 1,420 villages and 1,042 urban neighbourhoods across India. The next four sections of this chapter outline the salient features of the labour market in India while the concluding section sets out in some detail the plan of the book.

### **1.1 Introduction**

In 1951, 72% of India's workforce of 140 million<sup>2</sup> was employed in agriculture: the percentages in industry (mining, manufacturing, construction, and utilities like gas, water, electricity) and the service sector — at, respectively, 11% and 17% of the total workforce — were relatively small. In turn, the concentration of employment in agriculture was reflected in the fact that, in 1951, agriculture contributed 51% to India's GDP with industry and services contributing, respectively, 19% and 30%. By 2012, however, only 47% of India's workforce of 332 million<sup>3</sup> was employed in agriculture with 25% in industry and 28% in services; the corresponding contributions of agriculture, industry, and services to India's GDP were, respectively, 14%, 27%, and 59%.<sup>4</sup>

The first implication of these changes over India's post-independence period is that there has been a large shift in the workforce from agriculture to industry and services between 1951 and 2012 with more recent data showing these trends continuing: between 2011 and 2015, jobs in agriculture shrank by 26 million while non-farm jobs increased by 33 million. These large shifts, emblematic of

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<sup>2</sup> Visaria (1967).

<sup>3</sup> Venkatanarayan and Naik (2012).

<sup>4</sup> Dasgupta and Kar (2018).

significant structural changes in the Indian economy, occurred while the overall number of jobs rose hardly at all: from 456 million in 2011 to 463 million in 2015, an increase of just 7 million jobs in four years.<sup>5</sup>

Another implication of these changes is that productivity in agriculture, relative to overall productivity, has fallen sharply while that of services has risen dramatically. In 1951, agricultural productivity was 70% of overall GDP per worker while industrial and service sector productivities were, respectively, 1.72% and 1.76% of overall GDP per worker. By 2012, agricultural productivity was 28% of overall GDP per worker while industrial and service sector productivities were, respectively, 1.08% and 2.11% of overall GDP per worker.<sup>6</sup> So, productivity growth in agriculture has lagged behind overall productivity growth, industrial productivity is only slightly ahead, while productivity in services is twice that, of overall productivity.

Another noteworthy feature of the Indian labour market is the low participation rate, defined as the proportion of the population aged 15–65 years (the “working age” population) that is either working or seeking employment. A low participation rate may have several causes: people of working age postpone entering the labour market because they are studying, or they drop out of the labour market because they are discouraged by repeated rejections, or they cannot enter the labour market because they have unpaid caring duties, or they simply exclude themselves from the labour market for socio-cultural reasons. This occurs, for example, when married women devote themselves entirely to household duties. Most notably, the female participation rate, which was within the 34–37% range in the 15-year period up to 2005, began to decline thereafter before stabilising at a rate of 27% in 2012; the male participation rate declined from 83% in 2005 to 79% in 2013 and has since stabilised at that rate (Dasgupta and Kar, 2018).

Yet another important feature of the Indian labour market is the nature of the employers and the type of jobs that are offered. Employers are of two types: those in the *organised sector* and those in the *unorganised sector*. The organised sector is defined as comprising the public sector in its entirety

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<sup>5</sup> Woetzel *et al.* (2017).

<sup>6</sup> In 1951, agricultural productivity was  $(0.51/0.72) \times (\text{GDP}/\text{Employment})$  while industrial and service sector productivities were, respectively,  $(0.19/0.11)$  and  $(0.30/0.17) \times (\text{GDP}/\text{Employment})$ . By 2012, these figures were  $(0.14/0.47) \times (\text{GDP}/\text{Employment})$  for agriculture,  $(0.27/0.25) \times (\text{GDP}/\text{Employment})$  for industry and  $(0.59/0.28) \times (\text{GDP}/\text{Employment})$  for services.

(that is, government administration plus public enterprises) as well as those private sector firms employing 10 or more workers. The criterion of 10 or more workers was adopted because the National Commission for Enterprises in the Unorganised Sector (NCEUS) argued that this was the minimum number of employees required for an enterprise's workers to be eligible for the job, work and social security benefits under the various labour-related laws in India (National Commission for Enterprises in the Unorganised Sector, 2008, p. 17).<sup>7</sup>

The unorganised sector is defined by NCEUS as comprising “all unincorporated private enterprises owned by individuals or households engaged in the sale or production of goods and services operated on a proprietary or partnership basis and with less than 10 workers” (ibid., p. 2). On this basis, 17% of all employment in India in 2011–12 was in the organised sector, and 83% in the unorganised sector, these percentages representing a slight improvement from the corresponding proportions of 13% and 87% in 2004–05.<sup>8</sup>

In terms of the type of work, a distinction can be made between *formal* and *informal* workers. Informal workers are those working in the unorganised sector or those working in the organised sector but *not receiving* employment and social security benefits provided by employers in this sector. Formal workers are those working in the organised sector and receiving the employment and social security benefits provided by employers in this sector. Of the total number of workers in 2011–12, 8% were formal workers and 92% were informal workers; these proportions were virtually identical to those in 2004–05 when 7% and 93% of all workers were, respectively, formal and informal workers. While all workers in the unorganised sector were informal, 55% of workers in the organised sector in 2011–12 were also informal; this represented an increase since 2004–05 when 48% of workers in the organised sector were informal (Srija and Shirke, 2014).

The penultimate feature of the Indian labour market is the existence of labour market regulations which constrain the freedom of employers in the organised sector. The World Bank (2010) estimated that the Industrial Disputes Act of 1947, and its subsequent amendments in 1976 and 1984,

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<sup>7</sup> Such as, *inter alia*, The Industrial Disputes Act, 1947; The Factories Act and the Employees' State Insurance Act, 1948; The Employees' Provident Fund and Misc. Provisions Act, 1952; The Contract Labour (Regulation and Abolition) Act, 1970.

<sup>8</sup> Srija and Shirke (2014).

have led to 2.8 million fewer jobs being created in organised sector manufacturing which represented about 45% of the total of 6.4 million jobs in this sector in 2008.<sup>9</sup>

The last feature of the Indian labour market is government provision of jobs to the rural poor under the auspices of the National Rural Employment Guarantee Act (NREGA). This took shape in 2005 under the Congress-led UPA government, and in 2015 the BJP committed to itself to continuing the scheme which was the flagship of its erstwhile political opponents. The NREGA guarantees no less than 100 days of unskilled manual work in a year to a single member of every rural household.

In addition to supplementing the incomes of rural households, the purpose of NREGA is to use its workers to build rural infrastructure such as roads, water conservation, and land development. Woetzel *et al.* (2017) estimate that, between 2015 and 2017, NREGA created an additional 690 million person-days of work which, on the assumption that a person working full-time did 300 days in a year, was equivalent to 2.3 million additional jobs. While many of these jobs might not be *new* jobs — for example, agricultural wage labourers might supplement their income by working on NREGA construction projects — it yielded *additional* income to rural households.

## 1.2 Jobless Growth

India's economy grew at an annual rate of 5.6% between 2011 and 2013 and at an annual rate of 6.9% between 2013 and 2017, giving an average rate of 6.6% per year over the entire period between 2011 and 2017. Notwithstanding these high rates of growth, the number of jobs, on the latest available figures, increased by only 7 million between 2011 and 2015: from 456 million in 2011 to 463 million in 2015 for an annual growth rate of 0.4%.<sup>10</sup> This mismatch between the impressive rates of economic growth and the paltry rates of employment growth is commonly referred to as “jobless growth”.

The slow rate of employment growth has to be juxtaposed against the fact that around 12 million new job seekers enter the labour force every year while, between 2011 and 2015, less than 2 million jobs were being created annually. Given these figures, the natural expectation would be to

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<sup>9</sup> In 2017, employment in organised manufacturing was 10.1 million. <https://economictimes.indiatimes.com/jobs/countrys-organised-sector-created-4-lakh-jobs-in-2016-17/articleshow/62313543.cms> (accessed 22 December 2018).

<sup>10</sup> Woetzel *et al.* (2017). The annual growth rate,  $g$ , is obtained by solving the equation  $456 \times (1+g)^4 = 463$ .

observe a high (and rising) unemployment rate in India as a large, and increasing, proportion of persons sought, but failed to land, jobs. This, however, is not so. India's unemployment rate has remained at a steady 4%.

The reason for a low unemployment rate in the face of the number of job seekers continually exceeding the number of available jobs is that the unorganised sector absorbs the excess by offering low-quality employment doing low-productivity jobs. So, for example, a jobless youth who helps out in a relative's shop, for paltry remuneration, would not be counted as unemployed. The fact that he works for a pittance means, however, that the price of not being formally unemployed is underemployment in a poor quality "job". So, India undoubtedly has a severe "employment problem" but this problem is reflected not in high unemployment rates but in a preponderance of low-quality jobs in which people are either underemployed, or they toil long and hard, but always for very low pay. Ninety-two out of 100 jobs in India — the informal jobs — are of this type and they are to found mainly, though not exclusively, in the unorganised sector.<sup>11</sup>

The importance of raising productivity can be driven home by considering the process of price formation. The most common theory of industrial price formation argues that prices are established as a mark-up on costs.<sup>12</sup> Costs constitute payments for a number of inputs and activities — labour, capital, energy, raw materials — but since labour is usually the most important cost in production, the discussion here focuses on labour costs for ease of exposition.

If  $p$  and  $Q$  represent, respectively, the price of a product and its quantity and  $w$  and  $L$  represent, respectively, the wage rate and the amount of labour used to produce the output, then the price equation can be represented as:

$$p = \lambda \times \frac{w \times L}{Q} = \lambda \times (w / \pi) \quad (1.1)$$

Where  $\lambda$  represents the mark-up on unit costs (that is, the cost of producing a unit of output) and  $\pi = Q / L$  represents productivity (that is, output per worker). Assuming that the profit margin,  $\lambda$ , remains constant over time, equation (1.1) can be expressed in terms of *rates of change* as :

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<sup>11</sup> In 2011–12, 90% of informal jobs were in the unorganised sector and 10% were in the organised sector (Srija and Shirke, 2014).

<sup>12</sup> See Hall and Hitch (1939).

$$\dot{p} = \dot{w} - \dot{\pi} \quad (1.2)$$

where  $\dot{p}$ ,  $\dot{w}$ , and  $\dot{\pi}$  are, respectively, the rates of change (per unit of time) in prices, wages, and productivity.<sup>13</sup>

Now suppose in equation (1.1), both wages and productivity grew at 5% ( $\dot{w} = \dot{\pi} = 5\%$ ). Under this scenario prices would remain unchanged ( $\dot{p} = 0$ ) and real wages ( $w/p$ ) — or equivalently, living standards — would rise by 5%. Indeed, growth rates in productivity completely determine the rise in living standards that is possible. Suppose productivity grew at 5% and wages grew at  $x\%$ ; in consequence, prices would change by  $(x-5)\%$  and this would be positive or negative depending on whether  $x > 5$  or  $x < 5$ . In any event, the growth in real wages, defined as the difference between the growth in (nominal) wages and the growth in prices,  $x - (x-5)$ , would equal the growth in productivity, 5%. So, the moral of the story is that an increase in a country's living standards can only be obtained by raising productivity and that productivity increases will entirely determine the achievable rise in its living standards.

In order to engender a rise in living standards which is general over the population, as opposed to being restricted to certain privileged groups, productivity growth needs to proceed in tandem with an expansion of employment. In order for this to happen there has to be another kind of structural change in India's labour market. In the recent past, the structure of the labour market has changed as employment has shifted from farm to non-farm activities: as noted earlier in this chapter, between 2011 and 2015, the number of farm jobs fell by 26 million and was paralleled by a rise of 33 million in the number of non-farm jobs. A large part of this shift was into construction, trade and hospitality, and transport. In part this was engendered by increased government spending on infrastructure — roads, railways, bridges, housing, telecom, power, education, and health.<sup>14</sup> These sectoral shifts, however, occurred without any significant change in the relative sizes of the organised and unorganised sectors which, as noted earlier, provided, respectively, 17% and 83% of total employment in 2011–12. In order to boost productivity and employment there needs to be a further

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<sup>13</sup>  $\dot{p} = dp/dt$ ,  $\dot{w} = dw/dt$ , and  $\dot{\pi} = d\pi/dt$

<sup>14</sup> See *The Economist*, "Powering Ahead: India's Once Shoddy Transport is Getting Much Better", 17<sup>th</sup> July 2017 for details of transport infrastructure spending in India.

structural change involving an expansion of the organised sector and, commensurately, shrinkage of the unorganised sector.

In the context of employment generation, one problem with the organised sector is that the composition of industrial output is skewed towards capital-intensive products (*inter alia* petroleum, chemicals, cars, engineering products), and away from labour-intensive products (*inter alia* textiles, leather goods, furniture, bicycles). In a study encompassing 97 industries, Das *et al.* (2009), after identifying 31 as labour-intensive and 66 as capital-intensive, showed that the combined share of the 31 labour-intensive industries in Gross Value Added of the organised sector averaged 12.9% between 1990–01 and 2003–04.<sup>15</sup>

Furthermore, even within particular products, Indian firms prefer to use capital-intensive, rather than labour-intensive, techniques of production. From a cross-country analysis of 19 countries for the period 1994–2004, Hasan *et al.* (2010) found that: (i) India used a higher capital/labour ratio in manufacturing than countries at its level of development with similar factor endowments; (ii) India used higher capital/labour ratios in a majority of manufacturing industries compared to China; (iii) for every three-digit manufacturing industry, India used a higher capital/labour ratio than predicted by its factor endowment.

The third feature of firms in India's organised sector is that they are either very small or very large. Consequently, there is an absence of the medium-sized firms that have driven growth in several countries or, as Mazumdar (2001) puts it, there is the problem of the "missing middle". Although the median employment in firms in the organised sector was 21 workers, a large number of firms in this sector had 10 or fewer workers and, even in the 90<sup>th</sup> percentile, the number of workers was 25 (Hasan and Jandoc, 2012). The smallness of firms in India limits their ability to provide good jobs. Generally speaking, workers with jobs in large firms are paid higher wages because they are more productive. In consequence of being more productive, they are also rewarded with generous fringe benefits, get more training, and are provided with a cleaner, safer, and more pleasant work environment (Moore, 1911; Idson and Oi, 1999; Oi and Idson, 1999).

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<sup>15</sup> The average labour/capital ratio of these 97 industries was 0.26. Industries with a labour/capital ratio greater than 0.26 were considered to be labour-intensive with the others being regarded as capital-intensive.

A number of economists have placed the blame for poor employment creation by firms in India on the straitjacket of India's labour laws.<sup>16</sup> Bhagwati and Panagariya (2013) estimated that there were about 200 labour laws in force in India of which 50 were central government and — since labour is a concurrent subject on which states can also legislate — 200 were state government laws. Perhaps the most invidious of these is the 1947 Industrial Disputes Act (IDA) and its subsequent amendments.

The main culprits are two clauses of the Industrial Disputes Act: the “Disputes” and the “Retrenchment” clauses. The Disputes clause creates incentives for settling disputes through adjudication rather than reconciliation and has overloaded the industrial disputes resolution system. Under the aegis of the Industrial Disputes Act 1947, labour courts in India adjudicate on worker–employer disputes relating to wages, allowances, dismissals, bonuses, injuries, accidents, and discrimination. In February 2018, a total of 8,142 cases were pending before labour courts in Mumbai of which 122 (15%) had been pending for over 10 years and 2,936 (36%) had been pending for between 5 and 10 years.<sup>17</sup>

The Retrenchment clause requires units employing more than 100 workers to obtain government authorisation (Chapter Vb of the IDA) for retrenchment and layoffs of employees though, in practice, such authorisation is rarely granted (World Bank, 2010). Furthermore, the Act also requires firms with 50 or more workers to give three weeks' notice to their workers of any change in their working conditions which may include disciplinary rules, technological changes, grade classification, shift work. In the face of worker opposition, any of these changes could trigger an industrial dispute.

Furthermore, any firm employing 100 or more workers cannot terminate its operations without government authorisation and unless such permission is given, which it rarely is, the owner has to effectively continue paying workers.<sup>18</sup> The consequence of such “employment protection” laws which severely constrain the ability of employers to fire formal workers is to simultaneously offer

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<sup>16</sup> World Bank (2010), Bhagwati and Panagariya (2013), Joshi (2016).

<sup>17</sup> <https://indianexpress.com/article/cities/mumbai/8142-cases-pending-in-mumbai-labour-courts-5050589/> (accessed 22 December 2018).

<sup>18</sup> This sometimes leads to the phenomenon of ‘sick’ firms which, after at least five years of existence, had incurred accumulated losses equal to or exceeding their entire net worth at the end of any financial year.

strong disincentives to hire such workers.<sup>19</sup> Vacancies are filled using contract, rather than permanent, workers (Sapkal, 2016) although even here government clips industry's wings by requiring that contract workers not be used for work of a "perennial" nature or for "core" jobs.<sup>20</sup>

Hasan and Jandoc (2012) detail the different ways that labour regulations can influence firm behaviour. First, they can increase the cost of hiring workers through imposing minimum wages and provisions for mandated benefits (such as health care and pension benefits).<sup>21</sup> Second, they can affect the speed and cost of adjusting employment levels through regulations about hiring and layoffs and changes to conditions of service for incumbent workers.<sup>22</sup> Third, labour regulations can influence the relative bargaining power of workers and firms by regulating the conditions under which industrial disputes arise and are settled.

Since the stringency of these regulations depends upon the size of firms, falling disproportionately on larger firms, it is likely that they have an impact on the size distribution of firms. Furthermore, since labour is a concurrent subject on which both the central government and the state governments can legislate, the severity of labour laws varies by state. Hasan and Jandoc (ibid.) show that, for labour-intensive industries, states with flexible labour regulations have larger employment shares in larger sized firms. Consequently, reform of India's labour laws is an important key, if not *the* key, to unlocking the employment potential of its industry; in this context, Bhagwati and Panagariya (2013) and Joshi (2016) have argued that the law most in need of reform is the 1947 Industrial Disputes Act. This Act needs to be reformed to ensure that a proper balance is struck between workers' and employers' rights and that, under reasonable grounds, employers can hire, fire, and retrench workers.

### **1.3 Labour Force Participation**

The labour force participation rate refers to the proportion of working age (15–65 years) persons who are in the labour force by which is meant that they are either in employment or actively seeking

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<sup>19</sup> See Bhagwati and Panagariya (2013, chapter 8) for a detailed exposition of the pernicious effects of labour laws in India.

<sup>20</sup> The 1970 Contract Labour (Regulation and Abolition) Act.

<sup>21</sup> The 1948 Minimum Wages Act; the 1948 Employees' State Insurance Act; and the 1952 Employees' Provident Fund and Miscellaneous Provisions Act.

<sup>22</sup> The 1947 Industrial Disputes Act.

employment. If  $P$  represents the size of the total population of a country,  $W$  represents the size of its working age population,  $L$  represents the size of its labour force,  $E$  represents the numbers in employment, and  $Y$  represents output, then the relationship between, on the one hand, output and, on the other, labour is given by:

$$\frac{Y}{P} = \frac{W}{P} \times \frac{L}{W} \times \frac{E}{L} \times \frac{Y}{E} \quad (1.3)$$

The term on the left hand side of the equation ( $Y/P$ ) is per capita income and this is written as the product of: (i) the proportion of the total population that is of working age ( $W/P$ ); (ii) the participation rate ( $L/W$ ); (iii) the employment rate, that is, the proportion of the labour force that is employed ( $E/L$ ); and (iv) productivity or output per employee ( $Y/E$ ). With a given proportion of the population that is of working age, equation (1.3) shows that per capita output,  $Y/P$ , depends upon the participation rate, the employment rate, and productivity such that, for a given level of productivity and a given employment rate, per capita income will be higher the greater the participation rate.

Participation rates vary by population subgroup. In particular, men have a higher participation rate than women; men between the ages of 25 and 45 have a higher participation rate than younger or older men; women with school-going children have a higher participation rate than those with pre-school children. For countries with a low rate of female participation an increased entry by women into the labour force offers a ready means to increase per capita income. A good example of this is Ireland whose economic success could, in large measure, be attributed to the increased economic activity of its women. By the standards of Northern Europe, in 1980 Ireland had a very low rate of female labour force participation. However, from the early 1980s there was a steady rise in the participation rate of women aged 25–64, from 20% in the 1980 to 50% in 1996, and this rise was an important factor in generating the remarkable rates of growth that Ireland experienced during its “Celtic Tiger” years from the early 1990s to 2007 (Berholz and Fitzgerald, 2016).

A similar case can be made for India. In 2017, the proportion of women aged 15 or more that were economically active (that is, working or seeking work) averaged 49% over all the countries of

the world but was only 27% for India. Out of 189 countries for which data were available for 2017, India ranked 170<sup>th</sup> — above Pakistan's 25% but below Bangladesh's 33% and Sri Lanka's 35%. At 17% of GDP, the economic contribution of Indian women was less than half the global average, and compared unfavourably, for example, to the 40% contribution that China's women make to its economy.<sup>23</sup>

In addition to low rates of economic activity by Indian women is the fact these rates declined from 37% in 2005 to 27% in 2012 and remained at that level till the latest available data, 2017.<sup>24</sup> Even if India had simply maintained the 2005 female participation rate of 37%, instead of seeing it fall to 27%, this would have added 42 million workers to its economy.<sup>25</sup> The World Bank estimates that India could boost its growth rate to 9% per year if around half of its working-age women were in employment (Dixon, 2018).

Kapsos *et al.* (2014) advance four main hypotheses to explain low and declining female participation rates in India. First, women are forgoing economic activity in order to stay on in school longer. Second, an improvement in households' economic well-being has reduced the need for women to work. Third, changes in the methodology for conducting surveys has resulted in some types of female employment being measured incorrectly. Lastly, relative to men, there is a lack of job opportunities for women. India's Planning Commission (2011) has suggested that increased participation in education was the main reason for falling participation rates among women. This then gives rise to the paradox that the more education girls received, the less likely were they to work. Women worked because the parlous state of their family's finances required them to. Since the likelihood was that the more educated women were from relatively better-off households, there was less need for educated women to work.<sup>26</sup>

In terms of the data, there could be a problem with the way people were categorized when they were unable to find a job of their choice. The format of the NSS employment survey was such that people who were willing to work *but unable to find a job they wanted* were misclassified as

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<sup>23</sup> *The Economist*, "Culture and the Labour Market Keep India's women at Home", 5 July 2018, <https://www.economist.com/briefing/2018/07/05/culture-and-the-labour-market-keep-indias-women-at-home>

<sup>24</sup> World Bank data, <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS> (accessed 26 December 2018)

<sup>25</sup> *The Economist*, "Culture and the Labour Market Keep India's women at Home", 5 July 2018.

<sup>26</sup> *The Economist*, "Culture and the Labour Market Keep India's women at Home", 5 July 2018.

“inactive” (that is, not in the labour force) rather than unemployed (that is, seeking work) and this affected women disproportionately more than men.<sup>27</sup>

Kapsos *et al.*'s last hypothesis is that employment opportunities for women in India have declined. Occupational segregation by gender, which corrals women into occupations that are socially acceptable, could be a factor here. If such sectors grew more sluggishly than male-oriented sectors, then this would limit women's employment opportunities. Indeed, Kapsos *et al.* (2014), using National Sample Survey data, showed that between 1990 and 2010 less than 19% of the employment opportunities offered by India's 10 fastest-growing occupations went to women. Moreover, occupations which were “women friendly” and in which the presence of women did increase — teaching professionals, life science and health associate professionals, and customer service clerks — were not among these fastest-growing occupations. On their calculations, if women had enjoyed the same occupational share as men, female employment would have grown by 29.3 million between 1994 and 2010 instead of the actual growth in female employment of 8.7 million.<sup>28</sup>

Overall, Kapsos *et al.* (2014) estimated that, of the decline in the female participation rate from 37% in 2005 to 27% in 2010, 18% was due to increased education and higher levels of household consumption, 42% was due to a general lack of employment opportunities for women and other factors, and changes in measurement methodology between survey rounds accounted for the remaining 40% .

Furthermore, Fletcher *et al.* (2017) draw attention to the fact that women in India face several constraints to working outside the home. First, lacking autonomy in a patriarchal society, many women have to seek their husbands' permission to work. The Indian Human Development Survey of 2011 showed that 61% of 28,718 women expressed willingness to work if a suitable job was available but 38% of women said that they were not allowed to work.<sup>29</sup> Unless they were forced to work through economic necessity, Indian families sought the social status of having “stay at home” wives and mothers.

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<sup>27</sup> *The Economic Times*, “Q&A format likely cause for National Sample Survey Organisation gaps: Experts” <https://economictimes.indiatimes.com/news/economy/indicators/qa-format-likely-cause-for-national-sample-survey-organisation-gaps-experts/articleshow/9032531.cms> (accessed 26 December 2018).

<sup>28</sup> See also Choudhury (2011).

<sup>29</sup> Desai *et al.* (2015).

For Indian women who defy convention and work, in spite of not being given permission to do so — and especially for rural women whose lives are ruled by the views of their village elders the consequences can be devastating. Social ostracism, whereby dissenters are declared outcasts with whom nobody, including their closest relatives, is allowed to have contact is a common instrument for ensuring compliance in village India. This was the fate that, in 2015, befell six women from the village of Peepli Khera, near the town of Meerut, whose defiance of a village patriarchy which forbade them from working at a nearby meat-processing factory, became a *cause célèbre*.<sup>30</sup> Some of this flexing of patriarchal muscle may have had an economic motive. The financial independence of these six women threatened the business of moneylenders in the village who earned their living advancing loans, at exorbitant rates of interest, to tide families over; their business was hurt by the fact that for working women these loans were no longer necessary.

Another reason for low participation rates among Indian women is that they are still subject to laws governing when and where they can work. The 1948 Factories Act stipulates that women are not allowed to work between 7pm and 6am; they cannot work in mining; and they are forbidden to do work which requires lifting weights above a certain threshold.<sup>31</sup> These rules could affect women disproportionately even as the economy grows: for example, female participation in export-oriented manufacturing jobs fell, despite increased trade and reduced trade barriers during the 1990s, possibly due to legal constraints on women's working hours (Gupta, 2015). Sapkal (2016) examines a particularly novel hypothesis regarding female participation, namely that the reform of inheritance laws, entitling women to inherit parental assets, increased labour force participation. Five states in India have amended the Hindu Succession Act of 1956 to allow women to inherit family assets when their parents died intestate. Using data from two successive rounds of the National Sample Survey (55<sup>th</sup> round: 1999–2000 and 64<sup>th</sup> round: 2004–05), Sapkal (ibid.) showed that women in states where reforms were implemented experienced positive effects in terms of labour force participation and

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<sup>30</sup> See *The Hindu*, “Six Women in Meerut Defy Boycott and Go to Work”, <https://www.thehindu.com/news/national/other-states/six-women-in-meerut-village-defy-boycott-go-to-work/article7228650.ece> (accessed 27 December 2018); see also Barry (2017).

<sup>31</sup> *The Hindu*, “Widespread Job Restrictions on Indian Women: World Bank Report”, <https://www.thehindu.com/news/national/widespread-job-restrictions-on-indian-women-world-bank-report/article7635949.ece> (accessed 26 December 2018).

educational attainments and that, furthermore, these positive effects were transmitted to their daughters.

#### 1.4 The National Rural Employment Guarantee Act

Under the auspices of the National Rural Employment Guarantee Act (NREGA), which came into force in February 2006, the Indian government provides jobs to its rural poor. This provision is part of a package of “rights-based” policies initiated between 2004 and 2014 by the United Progressive Alliance (UPA) governments in India, in which the Congress was the dominant party, and enshrined in Parliamentary Acts: the Right to Information Act (2005); NREGA (2006); the Right to Education Act (2009); and the Right to Food (2013), with the intellectual foundations of these policies being the “human rights approach to development”.<sup>32</sup>

The salient features of NREGA are readily summarised. Under its provisions, the government guarantees 100 days of unskilled manual work, at a minimum wage, to every rural household whose adult members volunteer to do such work, with unemployment benefit to be paid to those persons for whom the state is unable to provide employment.<sup>33</sup> NREGA can, thus, be viewed as a *conditional cash transfer* (CCT) programme, lifting the incomes of all participating rural households, the condition being that, in exchange for this support, their representatives on the programme do unskilled manual work.

The requirement to carry out this work serves as a self-selection device ensuring that only poor households take part. Thus targeting through the willingness to do unskilled manual work is *not integral* to the programme but serves as a selection filter to keep out non-poor households. The objective of raising the incomes of (only) poor rural households could have been achieved equally

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<sup>32</sup> As articulated, for example, in Nussbaum (1997).

<sup>33</sup> Wages under NREGA in each state were to be paid according to the Minimum Wages Act of 1948 for agricultural labourers in that state (Ghosh, 2013). Daily wages under NREGA in 2018 varied from ₹168 in Bihar to ₹281 in Haryana. In both cases, the NREGA wage was below the state’s minimum wage which was ₹237 in Bihar and ₹326 in Haryana: *Business Today*, “Govt May Raise Minimum Wage for MGNREGA Workers”, <https://www.businesstoday.in/current/economy-politics/govt-may-raise-minimum-wage-for-mgnrega-workers/story/281560.html> (accessed 5 January 2018). Unemployment benefit was provided at a minimum of one-fourth the wage for the first 30 days of “unemployment” and then at a minimum of one-third the wage for the subsequent period.

well without the employment requirement but, instead, by (say) restricting income support to ‘below poverty line’ (BPL) households that were identified through means-testing.<sup>34</sup>

It is instructive to compare the NREGA programme with another country’s CCT programme to poor households: Brazil’s *Bolsa Família* Programme (BFP). The BFP targets poor families with per capita incomes under a certain income cut-off (an “administrative poverty line”) which is determined based on household survey data from 2004. The BFP covers all poor families with children up to the age of 15 and it also covers all extremely poor families, regardless of their composition.

In order to receive assistance under BFP, which is normally granted on behalf of the mother of the family, it is necessary to be registered on the *Cadastro Único para Programas Sociais do Governo Federal* (CadÚnico — the Register for Social Programmes of the Federal Government), which is managed by the Brazilian Ministry of Social Development. The application is made at service points of the municipality of residence, but participation in the programme is decided at a federal level. After their application has been approved, BFP beneficiaries receive a debit card for withdrawing their benefit from a cash machine. The value of the benefit is the sum of a fixed amount and a variable amount determined by family composition (children, teenagers, pregnant women, nursing mother).<sup>35</sup>

BFP offers unconditional cash transfer for extremely poor families and conditional cash transfer for poor families or extremely poor families that include children, young people under 18 years of age, pregnant women, or nursing mothers. The BFP conditions are, in the main, the adoption of preventive health habits, such as regular medical consultations, vaccinations, and anthropometric monitoring, and maintenance of a minimum level of school attendance of 85% of the school year for children in elementary school and 75% for those in high school.

Both NREGA and BFP are large-scale CCT programmes. The former has expanded from covering the 200 most backward rural districts in 2006–07 to currently covering all of India’s 645 rural districts. In the financial year 2018–19, 44.7 million households benefited from NREGA

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<sup>34</sup> The Indian government uses means-testing in several other contexts: for example, the provision of health insurance under the *Rashtriya Swasthya Bima Yojana* (RSBY) is restricted to BPL households.

<sup>35</sup> See Lindert *et al.* (2007).

encompassing 116.8 million active workers.<sup>36</sup> In August 2015, BFP covered 13.8 million families encompassing 48 million persons.<sup>37</sup> The main difference between the two programmes is targeting and conditionality. In NREGA, targeting is achieved through conditionality — the willingness to do unskilled manual work in return for cash benefits. In BFP, targeting and conditionality are separate. Targeting is achieved through a unified information system and registry, the CadÚnico, which provides the basis on which decisions are made about who would receive BFP benefits.<sup>38</sup>

Apart from this difference in method used to identify poor households — implicitly by NREGA and explicitly by BFP — the other difference between the two CCT programmes is the condition attached to receiving cash. In NREGA, the beneficiary is required to perform an unskilled manual job while under BFP the beneficiary is required to invest in the education and health of the family's children. So, in evaluating the two programmes, one relevant question to ask is which is of greater social value: the assets produced through NREGA employment or the investments in children's education and health required by BFP?

NREGA has never met its target of providing 100 days of work per rural household: the number of days provided per household has fluctuated from 43 in 2006–07 to a high of 54 in 2009–10 but the subsequent trend has been downward: 46.2 days in 2012–13, 46 days in 2013–14, 40.2 days in 2014–15, and 48.2 days in 2015–16, with less than 10% of households receiving the targeted 100 days of employment in 2015–16.

Moreover, the fact that government expenditure on NREGA has consistently been below the budgetary allocation for the programme suggests a failure to plan for employment provision. Only 67% of the total available funds of ₹371 billion (£4.2 billion) was spent in the financial year 2013–14 which contrasts starkly with the over 90% budgetary utilisation rates for the BFP in Brazil. In addition, the proportion of works completed to works started under NREGA has been pitifully inadequate. The highest proportion of undertaken works that were actually completed barely exceeded 50% in 2010–11 and has been declining since: in 2012–13, 1.07 million projects were taken up of

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<sup>36</sup> NREGA website, [http://www.nrega.nic.in/netnrega/mgnrega\\_new/Nrega\\_home.aspx](http://www.nrega.nic.in/netnrega/mgnrega_new/Nrega_home.aspx) (accessed 30 December 2018).

<sup>37</sup> ILO Social Protection website, <https://www.social-protection.org/gimi/gess/ShowWiki.action?id=3044> (accessed 30 December 2018).

<sup>38</sup> Suarez *et al.* (2010).

which only 256,000 (25%) were completed and, in 2013–14, 1.1 million projects were taken up of which only 112,000 (10%) were completed.<sup>39</sup>

Then there are question marks about the usefulness of projects undertaken with NREGA labour. Under NREGA, the works that are allowed to be undertaken are *public works relating to natural resource management* (such as water conservation and measures to improve groundwater usage, irrigation works, renovation of ponds, afforestation, tree planting), *building individual assets* for vulnerable groups including the Scheduled Castes and Scheduled Tribes, and *building rural infrastructure* (roads, toilets, buildings).<sup>40</sup>

The first question relates to the fact that NREGA resources, funded through the public purse, can be used to improve *assets owned by individuals* through, for example, “land development and by providing suitable infrastructure for irrigation including dug wells, farm ponds and other water harvesting structures” or by developing “fallow or wastelands of households to bring it under cultivation” or by building “infrastructure for promotion of livestock such as, poultry shelter, goat shelter, piggery shelter, cattle shelter and fodder troughs for cattle” (Babu *et al.*, 2014, chapter 7, p. 34). In 2013–14, out of a total of 11.2 million projects taken up, 1.3 million (11.6%) involved work on the land of individuals. The use of public resources to improve privately owned assets could be construed as an illegitimate use of public funds and the fact that these beneficiaries have to be, as NREGA requires, *inter alia* from the Scheduled Castes or Scheduled Tribes does not diminish the fact that public resources are being used for private benefit.

Second, given that the decisions about projects to be implemented under NREGA are made locally, there is considerable scope for corruption in terms of the choice of individuals whose assets are improved. An unfortunate feature of Indian public life is that the spectre of corruption always looms over public policy, ready to exploit any loopholes that a new policy initiative might have to offer. Khera (2017) refers to the various types of fraud inherent in major welfare programmes like NREGA, the Mid-Day Meal scheme, Social Security Pensions, and the Public Distribution System. As I have shown elsewhere with reference to rural India (Borooah, 2016), there is hardly an economic

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<sup>39</sup> The figures in this paragraph are from Mathur and Bolia (2016) and Ranjan (2016).

<sup>40</sup> Babu *et al.* (2014).

activity in Indian villages that is not prey to corrupt practices and it is likely that these affect the operation of NREGA as well.

Third, the fact that the local authorities responsible for spending NREGA funds find it difficult to do so — in 2013-14, only 67% of total available funds were spent — raises the distinct possibility that they have to scrape the barrel in order to come up with projects to fund through NREGA. In commercial contexts, the search for funding is driven by projects offering the prospect of high rates of return. Under NREGA, this process is reversed: it is the availability of funds which drives the search for projects.<sup>41</sup>

Fourth, it is legitimate to express concern about the quality of NREGA projects. This is partly, as mentioned above, because projects are chosen without due diligence in order to spend available funds and to ensure that payments of unemployment benefit — which are to be made in the event of jobs not being found for NREGA applicants — are kept to a minimum. But poor quality could also be due to one of the conditions of NREGA which requires that “as far as practicable, works executed by the programme implementation agencies shall be performed by using manual labour and no labour displacing machines shall be used” (Babu *et al.*, 2014, p.31). Material costs on a project are capped at 40% of total costs with labour costs comprising the remainder. This means NREGA spawns a preponderance of labour-intensive works rather than durable structures that are materials-intensive both in terms of quality and quantity (Mathur and Bolia, 2016). Eight years after NREGA began, the Rural Development Minister, Jairam Ramesh, admitted in 2013 that “the works taken up under NREGA have not been of good quality and henceforth our focus would be to create durable assets at the village level”.<sup>42</sup>

Fifth, the well-known phenomenon in macroeconomics of “crowding out” — whereby government borrowing raises interest rates and so reduces private investment — also operates with respect to NREGA. Wages under NREGA are set artificially, without any reference to market forces, and this could render many private sector activities unprofitable in the wake of a NREGA-engendered

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<sup>41</sup> See Bhagwati and Panagariya (2013, chapter 14) on this point.

<sup>42</sup> As reported in the *Financial Express*, “NREGA Failed to Create Durable Assets: Jairam Ramesh”, <https://www.financialexpress.com/archive/nrega-failed-to-create-durable-assets-jairam-ramesh/1208421/> (accessed 31 December 2018).

rise in wages. Private sector entrepreneurs might then either go out of business or search for capital-intensive methods which would obviate the need for (now) expensive labour. Either way, public employment through NREGA could crowd out private employment.<sup>43</sup>

Li and Sekhri (2013) point to the effect that the higher wages under NREGA can have on school enrolments. Schooling outcomes could improve (enrolments rise) due to the income effect but they could fall (enrolments fall) because of the substitution effect. As the value of adults' time at work rises, the value of children's work in the household — which releases adults to work outside the home — also rises so that households substitute children's time at home for time at school. Using a longitudinal data set of 1.13 million primary and upper-primary schools in India, Li and Sekhri (ibid.) compared school enrolments between districts which received the NREGA programme early and those which received it later. They found that the substitution effect dominated the income effect which suggested that the NREGA programme induced parents to withdraw children from school so that they could stay at home to provide child care.

Lastly, NREGA is swaddled in layers of bureaucratic red tape with the consequence that only about 40% of workers receive payment within the 15 days that the programme promises remuneration will be made.<sup>44</sup> Aggarwal (2017) has argued that many of the delays occur because of the bureaucracy surrounding NREGA operations. Workers sometimes are asked to start work before the printed electronic muster roll (e-MR) associated with that project — generated centrally by the Ministry of Rural Development's Management Information System (MIS) — reaches the worksite. When the printed e-MR does arrive, there could be all sorts of discrepancies which act as a barrier to payment being made: the worker's Job Card number doesn't match that on the e-MR; his/her name was deleted from the Job Card; his/her name was entered in another e-MR. Then, there are errors in recording the number of days worked (supervisors keep handwritten records — *kaccha* — of days worked which are manually entered later, sometimes with errors, in the printed e-MR) or the printed e-MR are lost

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<sup>43</sup> This is particularly relevant in the case of migration. Farmers in Punjab and Haryana — the granaries of India — rely on migrant labour from Bihar and eastern Uttar Pradesh in much the same way that farmers in Britain rely on migrant labour from Eastern Europe to, say, pick strawberries. Since one of the aims of NREGA is to reduce migration from villages, it is likely that the supply of migrant workers to farmers in states like Punjab and Haryana will be affected in much the same way that Brexit will reduce the supply of migrant workers to British farms.

<sup>44</sup> Mathur and Bolia (2016).

(in which case “zero attendance” is recorded), or there are delays in signing the Fund Transfer Order by two authorised signatories, or the scheme is closed in the MIS without payments to workers being completed. Whatever the reason for delayed payments, Aggarwal (ibid.) suggests that the absence of a payment guarantee might be an important reason for workers losing interest in NREGA.

So, in the light of the preceding discussion, how does one assess NREGA? The most reasonable interpretation of NREGA is that it is a form of *workfare*: people who receive welfare benefits under NREGA have to work for it. While the welfare part of NREGA is to be commended, the add-on in terms of employment is of dubious value. Of course, given that NREGA is a universal benefit, available, in principle, to all rural households, the assumption is that only poor households would be willing to undertake unskilled manual work. In that context, the ‘work’ part of NREGA operates as a selection device but, having done that, it serves little purpose: it produces assets of questionable durability and, indeed, by distorting rural labour markets, it may harm the rural labour market by causing private sector activity to shrink. Additionally, it could impact on school enrolments as children are kept at home for household duties while the adults go out to work. In achieving so little, NREGA nonetheless offers ample opportunities for corruption which, in an Indian context, are not likely to be spurned.

So, echoing the views of Bhagwati and Panagariya (2013), it is also the view of this author that the welfare part of NREGA should be retained but that the employment part be discarded. This implies, of course, that another means of identifying recipients deserving benefits is required. This should not be a problem since the Indian government already operates a division between below and above poverty line households (respectively, BPL and APL households). This distinction could be applied with respect to cash transfers under NREGA. Indeed, NREGA already uses this distinction with respect to work carried out by NREGA workers for improving the assets of individuals: such improvements may be legitimately carried out for beneficiaries that are Scheduled Caste and Scheduled Tribe households or for households that are *below the poverty line*. In addition, conditionality requirements similar to those of the *Bolsa Familia* programme in Brazil could be incorporated into welfare payments under NREGA by, firstly, putting money in the hands of mothers

in the recipient families and, secondly, requiring verifiable achievements regarding children's education and health and the welfare of women in the recipient households.

### **1.5 Plan of the Book**

The subsequent chapters of this book present and discuss the results of the author's research, using unit record data from secondary sources, to quantify various aspects of labour market outcomes in India.

The next chapter, chapter 2, deals with labour market risk. Every time a job-seeker applies for a job he/she runs the risk of not getting it. However, these risks may not be uniformly distributed across job-seekers: some have a better chance of negotiating obstacles to employment; others have a higher chance of stumbling. The important question relates to the determinants of such risk. In particular, does this risk differ significantly between job-seekers from different groups: gender, religion, or caste? Chapter 2 uses a famous result in statistics, Bayes' Theorem, to make explicit the concept of risk and to explain why, under this theorem, different groups might have different rates of success of securing employment. The theoretical results are buttressed by data from two rounds of the NSS of Employment: the 68<sup>th</sup> round (July 2011–June 2012) and the 55<sup>th</sup> round (July 1999–June 2000). These data are used, in subsequent sections, to quantify the concept of risk set out in the earlier part of the chapter.

Chapter 3 focuses on the reservation of jobs in government and the public sector which is a corollary of the Indian government's constitutionally mandated duty to favour persons from the "reserved" categories (the Scheduled Castes, the Scheduled Tribes, and the Other Backward Classes) at the expense of persons from the "non-reserved" or "general" categories, in public sector jobs. Given that India's experiment with affirmative action has been emulated in other countries (Malaysia, Nigeria, Sri Lanka), the purpose of this chapter is to investigate — using unit record data from the latest available NSS round (68<sup>th</sup>) and an earlier round (55<sup>th</sup>) pertaining to a decade earlier, of Employment — the extent to which jobs reservation has benefited persons from the "reserved categories" by offering them a greater share of regular salaried and wage employment than they might have obtained in its absence.

Chapter 4 deals with an important concern of public policy in India which is to ensure that all persons, regardless of gender, caste, or religion, are treated fairly in the jobs market. A key aspect of this relates to inter-group differences in the likelihood of attaining different levels of occupational success. The issue here is whether these differences in likelihood are justified by differences in the distribution of *employee attributes* or whether they are, wholly or in part, due to *employer bias*. This chapter attempts to answer these questions using unit record data from the Indian Human Development Survey relating to the period 2011–12. Of particular interest to this chapter is that the Survey provides details about the occupations of approximately 62,500 persons by placing them in one or more of 99 occupations; these are aggregated in chapter 4 into six broad occupational categories. Using these data, the chapter (focusing on men and women between the ages of 21 and 60) employs the methods of multinomial logit to estimate the probabilities of persons being in these occupational categories, after controlling for their gender/caste/religion and their employment-related attributes. The main focus is the issue of differences between men and women, and differences between persons belonging to different social groups, in their likelihood of being in the different employment categories. Data on these men and women were used to decompose the observed difference between the groups, in their average proportions in the different occupations, into an “employer bias” and an “employee attributes” effect.

Chapter 5 considers the distribution of job contracts — in terms of casual jobs, temporary jobs (that is, those of less than a year’s duration), and permanent jobs — across different subgroups of the population. Although the analysis of chapter 5 echoes that of chapter 3, which is cast in terms of regular salaried and wage employment and casual employment, the novelty of chapter 5 is two-fold. First, it *explicitly* addresses the question of job tenure: while much of the regular salaried and wage employment discussed in chapter 3 may have been permanent employment, some of it may not have been. Second, and more importantly, it addresses the issue of “desirable jobs” using a data set different from the NSS data used in the earlier chapter (that is, unit record data from the Indian Human Development Survey relating to the period 2011–12). The Survey provides details about the job tenure of persons by distinguishing between three types of jobs: casual (daily or piecework), contracts of less than one year duration (hereafter, simply, “contract jobs”), and permanent. The

importance of the analysis contained in this chapter is that if one defines job insecurity as workers' fear of involuntary job loss, job insecurity has negative consequences for employees' attitudes towards their job, their health, and the quality of their relationship with their employers.

The purpose of chapter 6 is to consider wage inequality in India at a point in time (2011–12) with particular reference to inequality in wages between male and female workers and between workers from different social groups — the Scheduled Tribes, the Scheduled Castes, the non-Muslim Other Backward Classes, Muslims, and the Forward Castes. The thrust of the analysis in this chapter is to decompose the difference in wages between men and women, and between the Forward Castes and the other social groups, into a part that can be “explained” by employer bias and that which is due to differences in employee attributes. The analysis of this chapter extends earlier analyses of wage inequality in India to include social groups; methodologically, it seeks an explanation for inter-group inequality in terms of employer bias and (differences in) employee attributes. The analysis in this chapter uses data from two independent sources to analyse the phenomenon of inter-group wage inequality: the 68<sup>th</sup> round of the National Sample Survey pertaining to the period July 2011–June 2012 and the Indian Human Development Survey pertaining to 2011.

Chapter 7 pulls together the various threads of the preceding chapters. It begins by observing that many social groups in India — in particular, the Scheduled Castes, the Scheduled Tribes, and Muslims — are excluded from the mainstream of life and are underrepresented in many areas of public affairs. It then proceeds to expand on the concept of social exclusion and its relation to deprivation. In particular, it poses the question asked by Sen (2000): should exclusion be viewed in its own right as constituting deprivation or is exclusion to be deprecated only if it is instrumental in causing deprivation? Chapter 7 argues that an important effect of social exclusion is that it erodes self-confidence and, thereby, impairs the life chances of persons belonging to excluded groups. An important aspect of public policy is, therefore, to build the confidence of such persons. But how is this to be done? The chapter argues that affirmative action policies are the wrong way to achieve this.

A major argument against affirmative action is that instead of instilling confidence in its beneficiaries, it could sap that confidence. The deepest and most enduring damage that affirmative action inflicts is on those who benefit, rather than those who lose, from it. This is because the

beneficiaries of affirmative action have to live with the perception — both others' and their own — that they are living a lie: their achievements are not real and, therefore, their positions are undeserved. The stigma of inferiority is perpetuated because the worth of recruitments and admissions resulting from affirmative action is devalued, on account of the means by which they were secured. In order to tackle the problem of low confidence among those belonging to India's excluded groups one has to tackle the problem at its roots. These roots lie in the many dysfunctional primary and secondary schools, in the villages and towns of India, characterised by an absence of learning materials, teachers, and sometimes even classrooms. It is in these schools that learning is stifled and ambitions laid to waste. Before the vast mass of educationally and economically deprived children in India (many, but by no means all, of whom are from its "backward classes") can meaningfully enter the portals of universities and prestigious institutes of higher education, they need to go to good schools.