Caste and Ownership of Private Enterprises

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Age-old restrictions on access to capital by certain social groups continue to reflect themselves in the scheduled caste and scheduled tribes owning far fewer private enterprises than warranted by their share in the population in both rurual and urban India. Recent nationwide data also reveal that when they do run business establishments these are mainly household enterprises organised around family labour. Poverty rates among the enterprises of the socially disadvantaged groups are also much higher than among the other castes.

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Inter-caste disparity in access to private enterprise has been an important feature of social ownership of private capital in India. The customary restrictions in the past on lower castes' entitlement of property rights have led to limited ownership of private enterprise by them. Except the so-called impure and polluting economic activities (like those related to leather, sanitary products and others), the former untouchables were not entitled to undertake business and/or production activities (Olivelle 2005). The restrictions on the ownership of property rights in the past had resulted in a large proportion of low caste persons remaining without capital assets.

In 2004-05, in the rural areas, according to the National Sample Survey data, the proportion of households engaged in self-employed enterprise was 34.3% among the scheduled castes (SC) compared to 45.7% for the scheduled tribes (ST), 56.2% for the other backward classes (OBC) and, 61.4% for "others". In urban India the proportion of self-employed households among SC, ST, OBC and others were 29.4%, 26.3% 40.3% and 38.6%, respectively, indicating a significantly lower share of SC and ST in ownership of private capital.

In recognition of this feature of social ownership of private capital, governments have over the years initiated several measures, particularly for the SC and ST groups, to enhance their ownership of private enterprises. These policies mainly include preference in allocation of sites for business, supply of capital, training in entrepreneurship skill and incentives for market development. The central government has set up the National Scheduled Caste and Scheduled Tribe Finance and Development Corporation, which supports the SC and ST groups in a number of ways to set up enterprises and businesses. Similar corporations have been set up in a number of states.

While public policy continues to support entrepeneurship among the SC/ST groups, the private sector has also taken initiatives to develop a positive policy to promote the entrepreneurship (ASSOCHAM and CII 2007).

In this note we study the situation of SCs and STs with respect to the ownership of private enterprise. We deal with two interrelated aspects. First we present the evidence on continuing inter-caste disparities in ownership of private enterprise and the character of enterprises owned by the SC and ST groups vis-à-vis others and also the linkages with poverty. Second, we suggest a modification in government and private sector policy in enhancing ownership of private enterprise among these groups.

Ownership Status by Social Groups

In 2005, according to the Economic Census (EC) of that year, private enterprises accounted for about 95% of the total enterprises in the country. Table 1 provides the share of each of the social groups in the total number of private enterprises, alongside their share in total population in 2005. It emerges that the ownership of private enterprise continued to be highly skewed along caste lines. The SCs, STs, OBCs, and higher castes (HCs) accounted for about 10%, 4.6%, 40%, and 45%, respectively of the total private enterprises in the country. The SCs, STs, OBCs, and HCs constitute about 10%, 21%, 43%, and 25%, respectively, of the total population in the rural areas. Thus while the share of SCs and STs in the number of private enterprises is much lower than their share in the county's rural population, that of the HCs exceeds their population share by a substantial margin. In the case of OBCs, the share in private enterprise is fairly close to population share.

Table 1: Ownership of Private Enterprises by Social Groups (2005, all-India, in %)

		ST	SC	OBC	HC	All
Rural India:	Ownership proportion in total private enterprises 2005	4.6	10.00	40.57	44.83	100
	Share in population (Census 2001)	10.42	17.91	-	71.67	100
	Share in population (NSS 61st Round, 2004-05)	10.2	21.3	42.9	25.5	100
Urban India:	Ownership proportion in total private enterprises 2005	2.13	6.97	34.19	56.71	100
	Share in population (Census 2001)	2.44	11.75	-	85.81	100
	Share in population (NSS 61st Round, 2004-05)	3	15	36	45.90	100

Source: Based on the fourth *Economic Census*, 2005. Population figures are based on Employment Survey, NSS 2004-05.
All=Includes OBC population, SC – scheduled caste, ST – scheduled tribe, OBC – other backward caste, HC – higher caste.

In urban areas, where the organised industrial sector is concentrated, the inter-caste disparities are more pronounced. While the SCs' share in the country's urban population is about 15%, their share in country's total private enterprise is only 7%. On the other hand, the share of higher castes in total private enterprise was much in excess of their population share – the percentage share in private enterprise being 57% as against the population share of 45%. In the case of OBCs and STs, the share in enterprise was fairly close to the population share, and hence, in their case the disparities were relatively less. Thus the SC social group was worse off both in rural and urban areas.

Ownership by Type of Enterprise

The EC classified private enterprises into own account enterprises (OAEs) and establishments. An OAE is normally run by a household without hiring any worker on a fairly regular basis. An enterprise that is run by employing at least one hired worker or more on a fairly regular basis is an establishment. The hired worker-based enterprise is larger in scale of operation. OAEs, on the other hand, are generally petty production activities run by the household family labour.

In rural India, household enterprises account for 71% of total enterprises. Among the social groups, the SC and ST households operate a relatively higher proportion of household-enterprises as compared to OBCs. About 67% of total enterprises owned by the SCs were OAEs, compared to 61% for the STs, 60% for the OBCs, and 49% for the others.

In turn, the SC and the ST owned a smaller share of establishments (hired worker-based enterprises) as compared to the OBCs and HCs. The SCs own about 32% of hired worker enterprises, compared to 51% for HC. A similar pattern is observed in urban India as well. The percentage share of hired worker-based enterprises was 33% for SC, 38% for ST, 40% for OBC, and 51% for HC.

The EC also provides data on employment of workers in 1998 (the data on employment by social groups for 2005 has not yet been released). In rural India, private enterprises owned by the higher castes employed about 47% of the total workers in all enterprises, and another 39% by enterprises owned by the OBCs. Put together, the enterprises owned by these two groups employed about 86% of the total workers in the private sector enterprises located in rural India. The remaining 14% were engaged in enterprises owned by SC and ST groups. The concentration of employment in enterprises owned by higher castes indicates the dependence of workers, particularly the low-caste, on higher caste and the OBC entrepreneurs for employment (Kundu and Thorat 2006).

Poverty and Private Enterprise

SC and ST households not only owned a smaller proportion of private enterprises, but among them they operate more of household enterprises which are run with family labour. Own account enterprises are generally operated with low capital and use traditional techniques. The low turnover generates low income and results in high poverty among these households. Table 2 presents the poverty rates for the self-employed in agriculture and non-agriculture. We used for this exercise the poverty rate worked out by Amit Thorat, based on the National Sample Survey on Consumption Expenduture 61th Round for 2005-06 and using the Planning Commission poverty line (Thorat, Amit 2009). At the overall level the about 21% of self-employed households in rural area (engaged in production and business) were poor. This ratio was 43% and 27% among the ST and SC groups, respectively, which was very high compared to 17% for other households. In urban areas the poverty rate was much higher among the self-employed households belonging to the ST and SC groups. About 46% of households among the SCs and 42% among the STs were poor. The incidence was quite high compared to 25% among others. Thus the incidence of poverty among the self-employed households engaged in production and business vary from 27% in rural India to 46% in urban India for the SC and ST groups, and

Table 2: Poverty among Self-employed Farm and Non-Farm Households (in %, 2004-05)

Social Groups	Self -Employed Farm Households (Rural)	Self -Employed in Non-Farm Households (Rural)	Self-Employed Urban Households
ST	36.33	43.01	42.03
SC	32.87	27.26	46.00
OTH	20.29	17.54	25.01
ALL	23.44	21.52	27.7

Source –Based on the NSS Consumption Expenditure, Survey 2004-05, Estimate worked out by Amit Thorat, as part of PhD Research, Jawharlal Nehru University, 2009.

this reflects the petty character of private enterprises owned by the SC and ST groups.

Policy Changes

Two features about the social ownership of private enterprises emerge quite clearly from the EC of 2005. First, the consequences of historical restrictions on the ownership of private capital faced by the lower castes continue and are reflected in a very meagre ownership of private enterprises by the SCs and STs. While the share of the SCs and STs in total private enterprise is much lower than their share in the county's population, that of higher castes correspondingly exceeds the population share by a significant margin. In the case of OBCs, their share in ownership of private enterprises was fairly close to their share in population. Second, the SC and the ST social groups generally operate own account household enterprises, which are operated with family labour, a smaller amount of capital and traditional technology. High ownership of household enterprise among the SC and ST groups results in low income and high poverty among the self-employed households.

These insights from the 2005 EC survey have policy implications, which require changes in government and private sector policy towards the SC and ST groups. It needs to be recognised that social groups like the SCs lack access to ownership of private capital because of denial of property rights in farm and non-farm enterprise for a very long period of time in the past. But they also possibly continue to experience different forms of restrictions in accessing the various inputs and services necessary for production and business and in sale of products in various markets (Thorat and Mallick 2004). The discrimination faced by low caste persons in various markets in accessing the inputs and services and also in sale of certain goods and services restricts and discourages the ownership of enterprise by the SCs.

These problems require specific changes in government and private sector policies in order to promote private enterprises among the SCs and STs. First, a policy to compensate for the denial of property in the past, through specific compensatory measures to enhance the ownership of private capital is necessary. Second, there is also need to provide positive safeguards against market and non-market discrimination faced by the dalit and adivasi entrepreneurs, with positive steps to ensure equal access to the SC and ST groups to private enterprise.

The compensatory policy measures need to be directed to increase the ownership by SC and ST groups of share equity in enterprises. Some countries such as South Africa and Malaysia have developed policies to enable the minorities to have greater share in the capital of private companies. For this purpose, as in Malaysia, there is a need to set up an Investment Foundation or National Equity Corporation that would help particular social groups to buy shares of firms. Alternatively, the existing National Scheduled Caste and Scheduled Tribe Finance and Development corporation could be mandated to perform this function. This will involve the re-distribution of private capital in favour of the SC and ST groups. A legally sanctioned and systematic re-distribution of private capital ownership was indeed undertaken under the New Economic Policy in Malaysia in the early 1970s whereby the share of the Malay in the ownership of corporate capital rose from 2% to 20% over the course of the two decades. A similar initiative is under way in South Africa as part of the Black Economic Empowerment programme in that country (Balshaw and Goldberg 2005).

A second step that is necessary is to promote dalit and adivasi businesses would involve support to existing enterprises as well as for creation of new ones. As has been observed earlier, most of the private enterprises owned by the SC and ST groups are petty household ventures with low investment and traditional technology, resulting in low income and high poverty among these households. Both the existing and new enterprises could be promoted though a positive policy for the dalit and adivasi entrepreneurs. These would involve a number of steps. They would include preference in allocation of sites for location of industries and business, with supply of necessary services like power, licences and other technical information required for setting up enterprises. Second, this will have to be backed by "market support and procurement policy". The most important way through which the government and private sector can help the dalit and adivasi enterprises to prosper is to ensure a market for the commodities produced and sold by them. The government and private corporate sector make purchases of all kinds of goods and services. In that the government and the private sector may decide on specific quotas for products made by dalit and adivasi enterprises. This is especially necessary in consumer and other goods where dalits particularly face discrimination in sale of certain goods and services (Thorat and Mullick 2004). These may also include agricultural goods. Dalits face discrimination in sale of certain consumer goods, such as milk, vegetable and fruits in rural area. The government should provide market support for some commodities like milk, vegetables, fruits and other such items. The government may also provide a specific share in various government contracts to dalit and adivasi contractors. The private sector may also develop a "market support" policy in purchases of goods produced and sold by dalit and adivasi businesses and in various other "contracts". Further, since most of the enterprises owned by the dalits and adivasis are household units with traditional technology, there is a need to strengthen them with provision of new technical know-how and higher capital investment. The current system of preference in provision of finance for business, quotas in government spaces/site for business promotion for marketing of products will have to be suitably modified to make them part of the new suggested policy.

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