Centre for Multi-Disciplinary Development Research which is one of the national level research institute supported by ICSSR, New Delhi, aims at undertaking analytical studies of conceptual significance and studies on the socio economic and cultural issues using multi disciplinary perspective and microlevel information. The Centre has initiated a CMDR Monograph Series and also publications based upon the research studies completed at the Centre. The Series also consists of studies completed by eminent scholars on themes which are of significance to the thrust areas of the Centre.

So far Seventeen monographs have been competed and brought out by the Centre under this series. We are happy to present Monograph No. 18 under the title *Liberalisation, Ethnic-Relations and Employment Opportunities: Some Theoretical Considerations* completed by Dr. Suresh Kulkarni, Senior Fellow, Institute of Peace Research and Action, New Delhi.

Economic reforms instituted during early 1990s have many non-economic implications which some times are more crucial and far reaching than the economic implications themselves. Thus the question of opening up of the economy, throwing the system to national competition, allowing international in national flow of capital along with technology and other concomitants, gradual withdrawal of subsidies, privatisation giving more scope for the entities in the private sector in specified areas of economic activity etc., have far reaching implications for the inter regional and intra regional relations within the economy, new set of factor relations etc., In addition, the society may witness emergence of new elites with different social and economic power. In the background of differential, initial conditions of different communities, the economic reforms may give rise to a new pattern of inter community relations as well. While the economic implications and some of the obvious social implication of the economic reforms would receive the attention of the analysts for obvious reasons. The subtle implications for the inter community relations and ethnic relations may not receive the same attention. Dr. Suresh Kulkarni, with rich experience in analyzing such non-economic dimensions of economic activities, has developed a conceptual frame work for analyzing such implications of liberalization in particular. Surely, the conceptual frame work developed in the paper needs to be used for analyzing the facts during reform period. The present paper, any way can be considered as providing a direction for empirical studies of economic reforms focusing the attention on such aspects of non-economic implications of the reform. We do hope that the study presented by Dr. Kulkarni would be of interest to the readers.

CMDR expresses its thanks to Dr. Suresh Kulkarni for presenting this study for publication in CMDR monograph series.

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This article discusses two hitherto under-emphasized aspects of liberalisation in developing countries including India, viz., people’s perception of economic (market) reforms as ethnic groups and a theoretical understanding of impact of the reforms on public action for employment reservations for weaker ethnies. The discussion is organized into four sections. The first section introduces basic terms used in ethnicity analysis. Section 2 introduces a key theoretical perspective in which the nature of ethnic conflicts and distrust could be understood. In section 3 we briefly examine the ethnic clashes which have erupted in liberalising countries. Section 4 looks at a theoretical scheme for analyzing ethnic prejudices in labour market.

INTRODUCTION

I begin by introducing the selected basic terms and their definitions employed in the study of the ethnic phenomenon that are essential to the discussion in the article. Recounting the scientific connotations of the terms will help displace the considerable vagueness that attaches to perceptions of ethnicity and ethnic relations outside social science arena.

Ethnicity is the fundamental term in the analysis of ethnic dynamics. It refers to the tendency among people to apply their characteristics as ethnic group to mark themselves off from others. Mere existence of ethnic groups does not mark them off from each other. The significant condition for this to happen is that the groups interact to share resources and in-situations. At this stage competition begins and the competition is dictated by ethnic interests. This is the point where ethnicity is said to emerge. Ethnocentrism refers to prejudicial attitudes by which one group treats its own attitudes and beliefs undeniably superior to those of others. By ethnic ascription we mean attributing groups’ characteristics to members of the group for fixing the social position of the group with a view to entitle them to currently established privileges, rewards, protection and benefits. By ethnic group we mean segment of population “which is socially distinguished or set apart, by others/or by itself” (Feagin 1978) by differentiating its ancestry, cultural categories and physical features from those of others. The group may use either or all or any two of these differentiating parameters to stand off from other segments of population. Ethnic marker refers to a label to designate a segment of the population to distinguish it from other segments. It represents intragroup similarities and inter-group differences.
Language, religion, class, caste, region and nationality are the prominently known labels by which social groups are marked. The term ethnic nepotism lends an alternative conception of ethnicity. It anchors ethnicity to evolutionary development of the homo sapiens and sees ethnicity as an extension of kin selection in the mammalian tradition to that among human beings. This type of ethnicity is known as ethnic nepotism. It is a form of speciality. Economic or political or social behaviour is consciously or unconsciously associated to nepotistic ties. By ethnic stratification (horizontal) we mean parallel segmentation of ethnic groups. Each one group is stratified internally and the higher stratum of the group interacts with that of the other groups. Relations are unequal but prospects of ethnic harmony exist. By ethnic stratification (vertical) we mean classification of groups as superordinate and subordinate ethnies. All relations flow from the former to the latter and are unequal. Prospects of ethnic harmony are low. Social Closure is a Weberian concept. It refers to the actions of ethnic groups to close each other’s access to economic opportunities, social awards and society’s resources with a view to restrict these to members of their own groups.

The Resource Perspective

Multidisciplinary explanation of ethnic behaviour is the hallmark of the literature on ethnicity. Economists, sociologists, political scientists and social anthropologists have provided alternative theoretical perspectives on incidence of ethnic conflicts and prevalence of ethnic distrust. Even though a theory to comprehensively explain ethnicity is yet to emerge from the multidisciplinary efforts, nevertheless, the perspectives provide basic inputs for future theory building. For a recent review of the selected perspective see Kulkarni (Kulkarni 1997).

Considering them together, the Resource perspective and Nepotism perspective, seems more convincing since it arguably fits closely the present day ethnic situation. In Resource perspective we are led to visualize a relationship between material conditions, political and social resources of society and the ethnic conflict. Groups conflict with each other because they perceive that distribution of resources is a zero sum game, that is, one group’s access to resources is the loss of access for another group. Scarcity of resources only feeds the suspicion that distribution will be unequal. Therefore, groups are acutely skeptical of, if not averse to, the proposition that relative gains eventually trickle down to entire society. The degree of skepticism will be higher, the more multi-ethnic a society is and, vice versa. Economic development alone, or per se, does not reduce rivalry. Development and retarded development intensifies inter-ethnic rivalry. A vicious circle rather is created : perception of zero sum retards development and retarded development intensifies the perception. Conversely, a virtuous circle is likely to be
formed: development in resource-abundant situation dilutes inter-ethnic tension since the suspicion that one’s gain is other’s loss is diluted. A perception that every group is a likely gainer stimulates development and development heightens this perception. Ethnic groups will still exist but ethnicity is blunted.

Rivalry over access to resources originates largely in the economic sphere. Here too, experience, of developing countries at least, indicates that the rivalry is concentrated on job reservations and educational opportunities. Ethnic groups of also developed countries clash over resources; it is not true that economic competition invariably ceases if economies grow at high and steady rates. Competition also extends to political resources in both developed and developing countries. Apparently, understanding of and policy prescriptions for ethnic harmony require combining of the resources and the nepotist tendency perspectives for managing ethno-economic and ethno-political conflicts in tandem.

We will confine to one example to illustrate this proposition. Affirmative action is a standard refrain of weak or minority ethnies for securing jobs or educational facilities. Reservations or preferential treatments are resisted by established ethnies mainly because of fear of loss of their hold on employment market and educational institutions. The fear is converted into (negative) stereotyped image of the positively discriminated groups. The image is that of inefficiency of workers of these groups. This is a fairly general perception (see e.g. Coate and Loury 1993). But it is arguable on the contrary that precisely preferential selection is the only signal as well as the incentive to workers so selected to acquire efficiency and skills. Moreover if the weaker ethnies are cornered to the roadside they exert political pressure on state for assistance, subsidies and concessions. The economic plight of these groups have become murkier with the implementation of structural adjustment programs. This warrants stronger safety nets than before. Democratically elected governments accede to the demands to ensure their own survival. Affirmative action has the likelihood of managing competition and nepotism in tandem. It reduces rent seeking by the entrenched groups. Rent sharing will on the other hand help reduce distrust.

Instances of ethnic groups in India conflicting with each other for claim on economic resources abound. E.g. the well known razakar movement in the erstwhile princely state of Hyderabad. Soon after this state was merged into the Indian Union, Muslim feudal lords lost their economic base and fled the country, but the poor muslims stayed back perforce. Their economic plight today is indeed deplorable. A muslim fundamentalist organisation and also politicians have found a pretext in this plight and incited them from time to time to indulge in communal conflicts. The poor muslims want jobs and social security for which they find the inciters as their spokespersons. In
Moradabad city in the state of Uttar Pradesh, the sporadic communal violence is led by middlemen class of Hindu community to counter the traditional monopolistic control of the brassware industry by muslim entrepreneurs. The conflict became particularly violent when the latter started establishing direct contact with buyers in the export markets. The middlemen politicised the situation by mobilizing support of parties espousing hindutva. The communal line of violence is now drawn clearly. As an example of casteist violence against loss of economic (job) opportunities, the violent behaviour of caste doctors of Ahmedabad city in the state of Gujarat stands out prominently. The doctors agitated against reservation of jobs for tribal community doctors. Political parties, BJP in particular, are alleged to have masterminded the agitation to support the ‘economic demand of the caste doctors. These incidents exemplify simultaneously the resource base of ethnic conflicts and the nepotistic base.

Economic Reforms and Ethnic Relations

In this section we try to put together perceptions on ethnic disturbances being witnessed in the multi-ethnic countries implementing economic reforms. Intensity and frequency of disturbances do vary. But the visible signs of cracks in ethnic relations and their potency to put strains on transitions from centralized economy to market economy have taken academic advocates of liberalisation by surprise.

The report on a recent workshop (Albion and Lampe May 1994) says that scholars from multi-ethnic countries primarily view the tensions in the economic perspective or, resource perspective as we labeled in the preceding section. “Economic deterioration exacerbates ethnic tensions as reduced resources feed ethnic competition over their distribution. Ethnic rivalry, can, in turn, impede the chances of economic recovery, closing a mutually reinforcing cycle. Conversely, an expanding economy can ease ethnic tensions and provide a framework for the longer-term healing of the divisions between groups”. (Albion and Lampe 1994:1). Ethnic groups are apprehensive about the patterns of consumption of resources and less concerned with production of resources. The rivalry-development linkage works in two ways. In the first place rivalry and access to self-fulfilling resources are negatively related. More equal the access to resources and gains of development is, less is the degree of rivalry and, less equal the access is, more is the degree of rivalry. Secondly, both relationships are circular, in one case vicious and virtuous in the other. In multi-ethnic democracies the casualty of this process is sustained economic development. This general relationship closely resembles interest groups' conflict-economic development relationship. The well-known Olson thesis (Olson 1982) says
that economic growth (growth of GNP) in democracies declines when interest groups proliferate. Interest groups clamour for claim over resources rather than let the resources for a growth of GNP. Growth is blocked by innovation - reducing and entry-limiting acts. Interest groups strive for redistributive justice in the same pie rather than for expanding it. What emerges is a revolving - door politics in which groups keep replacing one another and taking turn in taking larger share. Clearly, the extent to which redistributive claims over-shadow the concern for national economic growth will depend on the number of interest groups. Broadly, all-encompassing (wider) interest groups promote growth or what is now called GEAR (Growth, Employment, and Redistribution) while common-interest (narrow) groups are growth retarders; they promote EAR (Employment and Redistribution).

Thus, both ethnic groups and interest groups clash among themselves for redistribution than unite for accelerating growth. However, the nature of the struggle of the two types of groups is not same. Rivalry among the former often takes the form of violence and involves people of socio-economic strata, rivalry among the latter generally or commonly takes the form of institutional protests, trouble shooting, discourse and, the groups predominantly belong to middle class, cutting across ethnic identities. Ethnic rivalry for economic resources assumes more serious proportions.

That the multi-ethnic post-communist countries in Europe, and even non-communist countries e.g. Belgium, have found their transition to market economy painful goes to support the resource perspective. It is not evident that the invisible hands of market have, so far, helped resolve ethnic clashes over the distribution of consumption and production resources, accelerating economic growth. To quote an instance, Hungarian apples and Bulgarian vegetables disappeared from the market because Hungarians and Bulgarians wanted the immigrant Russians to fail economically (Albion and Lampe 1994:4). Even in the economically developed Belgium, fair distribution of resources between Flemish (Belgian north) and Walloons (Belgian south) has not erased their ethnic separateness.

Breaking this vicious circle or strengthening the virtuous circle is considered the responsibility of state. Can the state shoulder it particularly for the purpose of transition? State’s dilemma is, that ethnic groups expect state to continue to protect the people and look after their basic needs as it did in the communist regime; at the same time state should cease forthwith to be oppressive and repressive which it was in that regime. That is the way, they argue, to curtail ethnic clashes. Market mechanism, on the other hand, demands that bureaucratic structures be dismantled and the resource used to support it downsized. Let state also transfer property rights to individual enterprises. The state is, therefore, locked between the horns of ethnic wishes.
and demands of economic transition. In the following we give a summary account of the facets of the interaction between ethnic conflict and liberalisation witnessed in recent period.

The Slovakia state is not ethnically oriented and yet it is a victim of ethnic conspiracy. It has faced the ire of Hungarians who live in some parts of its territory. To implement reforms measures, the government had to change rules of administration. But when the rules affected different groups differently it was mainly because of arbitrariness and sheer incompetence of bureaucracy. The harm to Hungarians was accidental. For instance, if unemployment rate among them was high it was because majority of Hungarians work in agriculture which has historically been a lagging sector. The question however remains, namely, should the state merely watch the situation passively, even though conspiracy does not operate? One option is that it can invest preferentially in the Hungarians’ region. Strangely enough, this measure is opposed by Hungarians themselves. They suspect their ethnic majority might be diluted once the improved economic scenario begins to attract Slovaks and others in their region. Thus ethnicity strongly hinders Slovakia’s economic reforms.

In Latvia, one of the republics which gained independence from Russia, Latvian majority as an ethnic group has been reduced. Russians, Ukranians and Belorussians together constitute 48 per cent. Whereas, earlier Latvians were 75 per cent but today they are 52 per cent. Little wonder every Latvian including the liberal has instinctively considered policies and means of reforms from ethnic perspective. Economic restructuring will be a tremendous task where Russian economic domination still persists. They still control enterprises and financial institutions. Liberalisation, Latvians argue, will only strengthen the Russians hold. Evidently state cannot do anything to help transition. Being run by Latvian ethnic group the state has introduced citizenship law to discourage Russian immigrants. Feeling runs high that they owe allegiance to former Soviet Union. As a result, state compulsively allocates resources to the ethnic Latvians at the cost of economic reforms; artificial impediments are put to the country’s opening up potential. For instance, avionics industry is not supported by state because it benefits Russia.

These experiences illustrate a point reformists were not prepared for. The usual refrain of those who have advocated liberalization is that large size of government, bureaucratic rigidities, resistance from indigenous capital owning classes, isolation from international trade retard the globalisation process. The structural adjustment programme (SAP) was recommended to overcome these barriers. The adjustment process is still going on and one may wish it success. The ethnic barrier, is, however, very strong; in some multi-ethnic countries it has proved insurmountable.
Ethnic management, therefore, rings in an additional parameter in the future course of economic transition.

**Would Private Sector Employer Follow Mandates on Positive Discrimination in a Liberalising Economy?**

In this section we look for a theoretical explanation of the adverse effects of liberalisation discussed in the preceding section. Attempt is made to show that current economics of discrimination does not go with the popular notion that positive discrimination (read job reservations) weakens ethnic biases of private sector employers in recruitment of workers; in theory, liberalisation would not change the negative stereotyping of workers.

Politics and public action for employment in multiethnic countries, including India, emphasize that state has to actively persuade employers in non-government sector also (read private sector) to discriminate positively in recruitment of workers of weaker ethnic groups. It may be withdrawn once it neutralizes negatively stereotyped images of workers of minority groups, but if not, let it continue as a permanent mandate. This contention, theoretically speaking atleast, has doubtful validity. To see this we formulate below a narrowly identified case of the problem which leaves the efficacy of job reservation policy open.

Let the maintained hypothesis be: In the private sector, chances are equal that government mandated positive discrimination may remove ethnic prejudices and may not remove ethnic prejudices. To be able to validate this hypothesis we have to have a theory on employers’ recruitment preferences. The rational employer, one who maximizes his profits, would hire workers whose productivity is high enough to earn a net profit for him. If, however, he observes that productivity of workers for whatever reasons is associated with the group they belong to he would avoid recruitment of those workers or workers of those groups who are not productive by his standards. Known as negative stereotyping in discrimination theory, this practice is observed in labour market. Any mandate against the practice will be resisted and if strictly enforced, circumvented. For instance, if equal pay-for-equal-work (removal of wage disparity) mandate can no more be violated, he stops discriminating in wage payments but introduces discrimination in job allocation; he will assign high-paid jobs to workers of a selected ethnic group only. If a stricter regulation is mandated viz. ‘no discrimination in job assignment’ he still discriminates by keeping investment in workers low. If a still stricter one is stipulated, viz. ‘proportionate earmarking of all jobs among all workers willing to work’ or ‘preferential assignment of jobs to workers of weaker ethnies’, he substitutes capital for labour. In short, employers stick to negative stereotyping as long as they find the
opportunity cost of affirmative action high. If this characterization holds, the constraint of job reservation is likely to reinforce the ethnic prejudice, because as employers relax the standards of recruitment, to that extent they curtail the reservation workers’ incentives to invest in themselves. This reduces workers’ incentives to build their own human capital since they are assured of employment in any job in the firm. Precisely because this happens the employer retains his prejudicial stance and in theory, he will discriminate on ethnic basis. An important conclusion of the above argument is that affirmative action promotes the advancement of disadvantaged workers only so long as the mandate is in force. It does not weaken the negative stereotyping if market forces regain their vitality.

Theoretical explanation of employment discrimination has progressed in two broad directions viz. employer preference analysis and, statistical modeling. The one was pioneered by Becker (Becker 1957) while the other by Arrow (Arrow 1973). Becker theorized the motives for discriminatory action by analyzing employers’ tastes and preferences. Arrow on the other hand proposed a statistical theory of discrimination. The statistical model shows that employers’ prejudices or biases arise from imperfect observability of worker productivity which in turn is attributed to employers’ tendency to assign jobs on the basis of workers’ endogenous productivity only. Subsequent studies in the economics of discrimination have largely followed statistical discrimination theory (Coate and Loury 1993; Welch 1989; Leonard 1984; Smith and Welch 1984; Lundberg 1983; Aigner and Cain 1977; Glazer 1975). This article also, makes an attempt to refurbish the statistical theory since our argument that ethnic considerations are too strong to be ignored even in liberalised economy is consistent with this theory.

Following Coate and Loury (1993), we let ‘r’ stand for ratio of net gain to loss and define it as

\[ r = \frac{x_q}{x_u} \]

Where,

\[ x_q = \text{assignment of job to qualified worker.} \]
\[ x_u = \text{assignment of the same job to unqualified worker} \]

Assume that the employer assigns a job by fixing a priori standards for ethnic groups. This implies that he knows from which group he should hire workers who are qualified to meet or exceed his standards. Thus, he knows that if he assigns the job to qualified workers, he gains a net return, \( x_q > 0 \). if he assigns the job to unqualified workers, he incurs loss, \( x_u < 0 \).

On these initial premises it can be shown that in equilibrium, with even ex-ante workers’ endowments identical, employers’ homogeneously negative dispositions towards workers of selected ethnic groups will persist. For a rigorous proof of this proposition see Coate and Loury (1993; 1223-27).
It remains to be seen how would state policy of job reservation dilute or overcome employers’ negatively stereotyped notions about job seekers from disadvantaged ethnic groups. In a globalising economy, state will sooner or later realize the gravity of employers’ propensity to stereotype the workers. In a fundamental sense, state intervention has to focus on results rather than on process of recruitment. Monitoring or controlling the process of recruitment calls for full information on changes in recruitment practices. As Glazer’s (Glazer 1975) pioneering analysis has shown at successive points of time supply of jobs to workers of weaker ethnies should match the demand for jobs of workers from the weaker ethnies, but in reality this does not happen. Because, circumventing strategies of recruitment keep appearing information on which does not become available to authorities.

Theoretically, given certain conditions (see Coate and Loury 1993: p.1228), equilibrium assignment of jobs to workers of minority and majority ethnies or to disadvantaged and advantaged ethnies exists. Once this happens employer discrimination can be expected to vanish and state can withdraw its policy. The important sufficient condition for the equilibrium is: for assigning a job equally to fraction of workers from two groups, i.e. for $Aa = Ab$, (where $A$=assignment, $a =$ one ethnic group and $b$=another ethnic group), is that in the domain $0, 1$ of standards, $f(s)$ must decrease in some part of the domain. This sufficient condition does not materialize, in the sense that the employer while implementing the state mandate does not give up his prejudice, such that by the very act of following the mandate he retains the prejudice. In other words, employers’ action becomes a "patronizing equilibrium affirmative action" (Coate and Loury 1993: p.1235). When the employer patronizes the less advantaged workers the latter’s incentive to improve their own skills is reduced; they become complacent but remain less skilled. Therefore, if job reservations meant to weaken the harsh law of market happen to be one-shot programme, they might prove suicidal for the workers. However, even if the programme operates on a long-term basis, the probability that workers invest in themselves still remains low or may even disappear.

Conclusion

Theoretically speaking, therefore, policies to protect and promote job prospects of weaker groups in a market situation may or may not achieve the purpose. Our apprehension is that in the liberalising Indian economy this possibility will persist. Ethnocentric prejudices, be it caste or language or region oriented, will find newer ways of discrimination. While empirical validation must be sought before accepting this theoretical perception, it may be said nonetheless that what is happening in liberalising multiethnic countries provide indirect support to this apprehension. The MNCs would be least motivated in participating in the social situation of these
countries. It is being increasingly said that Liberalisation in India has expectedly opened Pandora’s Box. While there is not the slightest doubt that in the long run it is economically beneficial to all segments of the country’s population one should also surmise that economic benefits create social tensions. In labour market with exposure to global action, preferential job assignment to weaker groups will not materialize smoothly. The best course of action left in this reality is to widen the safety net for the workers screened out by the open labour market.

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