

TRACING THE DIVIDE: INTERGROUP DISPARITY ACROSS COUNTRIES

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Theil's T index has attractive decompositional properties that have been exploited by James Galbraith [1998; Conceição and Galbraith, 2000] and his international inequality research team at the University of Texas at Austin to good effect. They have been able to construct an alternative and more complete time series of estimates of variations in inequality in a variety of countries by judicious use of manufacturing sector wage data from the International Labour Office, by considering interindustry variation in wages, and by lopping off the within-industry component of wage variation in Theil's T to arrive "a lower bound estimate of dispersion" [Galbraith, 1998, 287].

We provide a different take on applications of the Theil index. Instead of focusing on industrial variation in compensation, we consider Theil's T from the perspective of variations in income or earnings across the major racial and ethnic groups that comprise a given society. We also presume that the identity of the groups is understood within the norms and conventions of the society in question.

The literature on intergroup disparity across countries is in its infancy; Nesiah [1997] compares the affirmative action program in Malaysia, India and the United States. Meerman [1999] has an interesting comparison of what he terms "hard core minorities" across four countries. However, in the literature, we have not come across any systematic attempt to link overall inequality *and* intergroup disparity. We believe that using Theil's T , interpreted as providing a decomposition of the general degree of inequality into two major components (the degree of disparity between groups and the degree of disparity within-groups) can be used as an apparatus to analyze the interactions between these two components of level of inequality. We argue that the interaction of these two terms is complex — if the general level of inequality is seen as moving independently, then it can be argued that it drives the change in intergroup disparity. However, a reverse causation would imply that intergroup disparity is a key element in determining overall inequality.

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Considering Theil's T with this perspective, the degree of disparity between groups is measured by the logarithm of the ratio of the mean income or wealth level for members of the j th group to the mean income or wealth level for the population as a whole, while the degree of disparity within a group is measured by ratios of individual members of the group's income or wealth to the mean for their group. Each category of variation is weighted by the product of the group's population share and their income or wealth relative to the population mean.

Following Conceição and Galbraith, with the assumption that individuals are grouped into m mutually exclusive and completely exhaustive groups, $g_1 \dots g_m$, each with n_j individuals, overall inequality can be represented as follows:

$$(1) \quad T = \sum_{j=1}^m p_j R_j \log R_j + \sum_{j=1}^m p_j R_j T_j.$$

$$(2) \quad T_j = \frac{1}{n_j} \sum_{i \in g_j} r_i \log r_i.$$

Our interpretation, however, is different from Conceição and Galbraith's [2000]. While we treat T in equation (1) as a measure of the general degree of inequality in a society or country, our characterization of the right side of the equation differs from theirs. The first term on the right-hand side of equation (1) represents the extent of *between-group* inequality across all ethnic/racial groups in the population of focus. R_j is the ratio of the mean income for the j th group to the mean income for the entire population while p_j is the j th group's population share. The second term represents the extent of *within-group* inequality across all ethnic/racial groups in the population. R_j and p_j have the same definition, but T_j is the *group-specific* Theil index measure, defined in equation (2). Here n_j is the absolute number of persons in group j . $i \in g_j$ indicates that T_j is generated by summing over all persons comprising group j , and r_i is the ratio of individual income or wealth to mean income or wealth for group j .

For a country that consists primarily of two dichotomous groups, say, the Fiji Islands characterized by a split between the indigenous Fijians and the East Asian ancestry Fijians, m would equal 2. Each term on the right-hand side of equation (1) would sum over the values computed for each of the groups. There would be only two expressions, one measuring the within-group inequality among the indigenous Fijians and one measuring the within-group inequality among the East Indian Fijians.

Note that the weights in the Theil index virtually compel us to think of subaltern groups as minorities or, at most, modest majorities. Certainly the interpretative validity becomes cloudy when the subaltern group is a substantial majority. Consider the case of South Africa. To insure that the weights sum to unity, definitionally R_j must be defined as the ratio of group mean earnings to population mean earnings. In 1991 South Africa R_j for blacks would have been 0.4 [Treiman et al. 1996].

But the socially relevant anchor for comparison for labor market performance in South Africa is not *all* men, about 75 percent of whom were black, but, in fact, only *white* males. While a R_j estimate of 0.4 is quite low by international standards, in 1991 the ratio of black to white male earnings in South Africa was a mere 0.16 [Treiman et al. 1996]! Post-apartheid South Africa is characterized by one of the most unequal

income distributions in the world, and, at its core, is the racial disparity in income distribution [Pearce, 1995].

If we read causation from right to left with Theil's T in equation (1), the extent of intergroup disparity shapes the general degree of inequality. Indeed, in this view the racial or ethnic divide is the deep structure driving social inequality. Intergroup cleavage conditions the overall degree of dispersion in rewards across the population, suggesting a fundamental role of group affiliations. This may or may not be given a primordial or even an atavistic tone.

If causation is read from left to right in equation (1), the general degree of inequality in the society can be viewed as shaping the extent of disparity across groups. Indeed, it is conceivable that the more unequal the overall distribution of income in a country, the greater the gap between the racial or ethnic groups that comprise it. If rewards and benefits are hierarchically distributed across the entire occupational or social structure, then there may be a greater incentive for specific groups to try to capture and hold the preferred positions. From this perspective, which is fundamentally materialist, racial or ethnic differences matter because class differences matter.

The grand questions suggested by this construction include the following: Is it group difference or the general level of stratification across a population that is more decisive in shaping economic disparity? Does a higher degree of intergroup inequality necessarily produce greater levels of general inequality, or is the higher degree of intergroup inequality mitigated by lower levels of within-group inequality? Does a higher level of general economic inequality produce greater levels of intergroup inequality?

To add to the complexity, the extent of between-group and within-group variation may operate interdependently. For example, the gap across groups may prompt the implementation of a social program to redress intergroup disparity that disproportionately benefits a comparatively well-positioned minority of the target population. In principle, the social program may reduce between-group dispersion, while accentuating within-group dispersion across the target population.

Such a charge has been levied about the operation of affirmative action on behalf of the native Malay ethnic majority in Malaysia. With a numerical majority in a parliamentary democracy, the relatively lower-income native Malays (in comparison with both a large Chinese ancestry minority and a smaller East Indian minority) were able to inaugurate an ambitious affirmative action program, the New Economic Policy (NEP), on their own behalf in 1970. While journalists Aznam and McDonald observed after 20 years of the NEP that "Education has been the least disputed success story of the NEP's socioeconomic restructuring", they also noted "a growing dichotomy within the Malay community between the English educated, urban-born and bred and the Malay educated, recent arrival to the towns" [1989, 31].

While Sundaram and Shari [1985] and Nesiah [1997] echo similar concerns, Theil and Gini index measures of the size distribution of household income based upon official statistics do not display a markedly higher degree of inequality within the native Malays (or "bumi") relative to the Chinese Malaysians prior to or shortly after the adoption of the NEP. The same data indicates a general rise in inequality throughout the entire Malaysian population between the late 1960s and early 1970s, although

such a general rise is not apparent in the Theil lower-bound estimates for inequality using wage data following the Galbraith technique [Galbraith, Darity, and Lu, 1998]. In the latter data set, the general level of inequality appears to decline slightly between 1970 and 1980 with slightly increased inequality only evident toward the end of the 1980s.

The Malaysian case also poses the problem of different implications about the impact of affirmative action from different data sets. Official data indicates a progressive closure of the gap between Malays and Chinese in terms of both household income [Jamaludin, 1998] and male earnings [Gallup, 1997] between 1970 and 1988. However, evidence from the retrospective work histories available in the Second Malaysian Family Life Survey (MFLS2) taken in 1988-89 indicates exactly the opposite pattern over the 20-year course of the NEP — a widening gap in male earnings with Malay men falling sharply behind Chinese men and mildly behind East Indian men. Gallup can find no basis to reconcile the findings unless the accuracy of retrospective reports on earnings differs by race, with systematic underreporting by one group and/or overreporting by the other. This is unlikely.

At first glance, the United States may provide a superior example of the combination of decreased intergroup disparity coupled with increased within-group disparity under the aegis of affirmative action. By any measure the United States experienced a significant increase in the general degree of inequality between 1970 and the early 1990s. This rise is readily detectable with either the Galbraith-Theil T [Galbraith, 1998] or the Gini ratios reported by the U.S. Department of Commerce [1998]. But the Galbraith-Theil T is not reported by race. In *Created Unequal* Galbraith explicitly eschews an investigation into the role of racial, ethnic or gender disparity with the observation that "Most of the movement in the wage structure, and most of the increase in inequality, would have occurred in the absence of a single working woman, or black, or Hispanic citizen" [1998]. Suppose, though, the bounds for inequality are dictated by intergroup disparity.

The official Gini ratios, reported by race, demonstrate a rise in inequality for both whites and blacks with a more pronounced rise for blacks. The Gini for white money income rose from 0.383 in 1969 to 0.444 in 1993; for blacks it increased from 0.411 in 1969 to 0.484 in 1993. The proportionate increase was similar for both groups. But the part of the story that does not hold is the convergence in income or earnings between blacks and whites over the corresponding interval.

While a claim might be made that the interracial gap in earnings narrowed throughout the 1970s, in the decade immediately following adoption of major antidiscrimination legislation and the affirmative action measures, the gap clearly widened in the 1980s with no strong evidence of a renewed closure of the gap in the 1990s [Darity and Myers, 1998]. Thus, the last twenty years in the United States have been characterized by both rising between-group inequality across blacks and whites and rising within-group inequality for both blacks and whites.

Galbraith wisely observes that this finding need not mean that affirmative action has failed. The story about program impact is potentially more complicated:

Because affirmative action addresses placement and not structure, even a successful affirmative action program is not inconsistent with rising inequality between groups. The average wage of African Americans can fall relative to that of the white population even while black representation in higher professions improves. This can happen because rising inequality generally drives down the relative wage of the majority of African American workers, who remain in occupations for whom affirmative action provides no meaningful relief or in industries that are losing ground on domestic and international markets. In fact, this is precisely what has occurred. The major changes in the manufacturing wage structure since 1970 have been catastrophic for high school-educated male workers, a category covering a large part of the African American labor force. The decline in the relative wages of this large group and its black members swamped the effect of increasing average education in the African American population. [1998, 57]

We interpret the passage above as indicating that Galbraith sees changes in the general degree of inequality moving relatively independently from the degree of intergroup disparity and thereby driving changes in intergroup disparity. He is, in effect, reading causation from left to right with the Theil T decomposed to account for group differences in incomes. We presume he would make a similar argument about the pattern of events in Malaysia if we had confidence in what they actually might be.

We share the view that preexisting structures of hierarchy tend to promote group rivalries over control over the social spoils and that macroeconomic changes will affect which groups are comparative winners and losers. But Galbraith's perspective is silent about the potential independent salience of group affiliation and allegiance. Group difference can in some cases constitute the irreducible basis for economic inequality. The persistence of the ancient Hindu caste system in India suggests that, at least there (and we propose elsewhere, including the United States), to not view group differences as playing a key role in structuring the degree of general inequality is to miss an important part of the story.

The importance of intergroup difference is fairly obvious in a country like Guyana (and increasingly in Trinidad and Tobago as well) where its two major ethnic groups, those of African ancestry and East Indian ancestry, are fairly evenly numbered and each has political parties with parallel ethnic constituencies. Whichever party wins the elections gains a measure of control over the state and the attendant system of spoils, thereby dictating changes intergroup distribution of income and the intra-group distribution of income — hence changes in the general degree of inequality. Harewood and Henry [1985] have suggested that in such ethnically plural societies, where control over the state is so intimately linked to income distribution, the old-fashioned Kuznets inverted U is rendered irrelevant. If anything there may be a series of inverted U s, alternating roughly with the electoral cycles, simultaneously changing the extent of between-group and within-group inequality.

In India intergroup disparity is multifaceted and bound with historical conflict in all its manifestations. For instance, the divide between the Hindus and Muslims that led to partition of the country on religious lines in 1947, serves as a grim reminder of the seeming permanence of the disparity. While we are aware of the greater range of group divisions in India, we focus on intercaste disparity here.

Our focus is motivated by the existence of a system of affirmative action ("compensatory discrimination") in favor of the dalits or former untouchable castes (called the Scheduled Castes — SCs, henceforth — in official terminology, owing to their appearance in a government schedule that identifies them as beneficiaries of the program). They constitute 16-17 percent of the Indian population. In addition, some tribal groups (called Scheduled Tribes) who constitute 6-7 percent of the population are considered sufficiently marginalized to warrant special government action for their "upliftment."

Hindu society (roughly 85 percent of Indians are Hindus) historically has been divided into a hierarchical caste system that has evolved over the years from a relatively simple *varna* system to a more complex *jati* system. The *varna* system divided ancient Hindu society into five mutually exclusive, endogamous, hereditary, occupation-specific groups, with a clear hierarchical ranking. The *varna* affiliation determined all aspects of a person's existence and dictated rules about interaction with members of other *varnas*. The *jati* system shares the basic characteristic of the *varnas*, but the sheer multitude (estimates suggest 2-3 thousand *jatis* exist) makes interaction between *jatis* considerably more complex. Also, *jatis* are not clear subsets of *varnas*, and thus it is not uncommon to find *jatis* claiming a *varna* status that is disputed by other *jatis*. This complicates any neat route to ranking the *jatis* systematically, assuming such a task is possible at all.

But whether it is the *varna* or the *jati* that is the frame of reference, the bottom rung of the caste system consists of the Sudra and Ati Sudra *varna* and their numerous *jati* counterparts. All menial tasks in Indian society have been their "preserve". Deprived of decent education and a dignified means of earning a livelihood, they have been subject to deprivation, discrimination, abuse, humiliation, and violence [Human Rights Watch, 1998]. A substantial number of these castes remain targets of the most degrading practice of untouchability—shunning by higher caste groups and forced segregation. In the past, even the shadow of an untouchable was considered polluting by higher caste Hindus.

Although formally abolished with the adoption of independent India's new constitution in 1950, the practice of untouchability continues, especially in rural India [Human Rights Watch, 1998]. Deprivation and discrimination continues. The Indian government's system of compensatory discrimination, also known as the "reservation system", assigned 22.5 percent of government jobs, seats in educational institutions and electorates at all levels for SCs and STs. This has been a constitutional commitment.

The justification for such a policy can be found in the sustained economic and social backwardness of SCs and STs. With respect to SCs, 48 percent work as agricultural laborers, compared with 25 percent in the general population [Jalali, 1993, 96]. Less than 1 percent of SCs make it into professional and technical jobs. Fifty-seven

percent of SCs have *no* formal schooling, compared with 35 percent of the rest of the population. Sixty-one percent of the SCs own no land, and the bulk of the "others" own less than 5 acres [Deshpande, 1999].

One could easily conclude that fifty years of constitutionally mandated affirmative action in India has not had much effect. Indeed, Raman [1995] and Nesiah [1997] present evidence detailing the poor track record of SC/ST recruitment in public employment. Also, while "preferential treatment has kept the beneficiary groups and their problems visible to the educated public, it has not stimulated widespread concern to provide for their inclusion, apart from what is mandated by government policy...[T]his lack of concern is manifest in the record of private sector employment [where the reservation system does not apply in India]" [Galanter, 1997, 191].

The larger question of whether affirmative action has succeeded in integrating the most marginalized groups into the mainstream remains. Galanter notes that increasing SC presence in jobs and employment will (eventually) "weaken the stigmatizing association of SC and ST with ignorance and incompetence, but in the short run they experience rejection in offices, hostels and other set ups into which they are introduced by preferential treatment. Resentment of preferences may magnify resentment to these groups, but rejection of them obviously exists independently of compensatory programmes" [1997, 190].

In an exact parallel with the United States, where the assertion frequently is made that affirmative action has given "unqualified" blacks access to positions they would not otherwise hold, the question of access for those who are patently competent in the absence of affirmative action is addressed only rarely, if at all. Indeed, the most systematic assessment of the aggregate effects of affirmative action in the United States uncovers no evidence of net productivity gains or losses due to its application [Conrad, 1995].

There is an implicit presumption that in the absence of state intervention on behalf of the disadvantaged group, conditions necessarily would be fair and non-discriminatory. But the universal persistence of racial and ethnic discrimination in labor markets in countries *at all levels of development* is a striking stylized fact of the modern world in the presence or absence of programs of redress for groups with inferior status [Darity and Nembhard, forthcoming].

Indeed, we are struck by Gallup's findings of the presence of significant levels of discrimination adversely affecting the earnings of native Malay males in their contemporaneous reports on earnings, despite the operation of the NEP and a high degree of bumi control over civil service positions. Similarly, Treiman et al. find that high levels of discrimination reduce the relative earnings of blacks in apartheid South Africa using the years 1980 and 1991, despite mean average levels of schooling among blacks so low (3 years in 1980 and 4.5 years in 1991) that market-based discrimination by whites to achieve exclusion seems to have been altogether unnecessary. In Brazil, significant discriminatory losses for blacks and mulattos have been identified in results derived from a 1995 survey of urban workers [Telles and Lim, 1998] despite the absence of any historic structure of legally mandated segregation or exclusion and the presence of a comparatively market-oriented economy. Moreover, no system-

atic empirical evidence suggests that measured degrees of in-market discrimination tend to decline consistently over time. "Rejection" of the out group would exist "independently of the compensatory programme."

We doubt the status of the SCs and STs would have improved in the absence of affirmative action, given the evidence on discrimination in labor markets. Bhattacharjee [1985] tried to assess in-market caste discrimination, over and above "institutional factors" such as unequal access to education and industrial training (the pre-market discrimination). He finds evidence of discrimination in the form of unequal pay for equal work in the modern urban labor market. Dhesi and Singh [1988], in a sample study of Delhi, find evidence pointing to differential access to education among different religion caste categories, but they also find evidence of wage discrimination. According to them, the high incidence of illiteracy among SCs explains a significant portion of the lower earnings of the SCs, but a significant disparity in wages was not explained by such "pre-market" factors.

While both these studies capture important facets of discrimination, the story does not end here. Discrimination is expressed through other *economic* avenues. Banerjee and Knight [1985] examine the crucial issue of whether discrimination in the labor market takes the form of wage discrimination or job discrimination. Wage discrimination is defined as "unequal pay for workers with the same economic characteristics even within the same job" and job discrimination is defined as "unequal pay for different jobs" [*ibid.*, 1985, 278]. They find evidence of significant difference and this they take as a measure of wage discrimination. Their data also suggests that caste discrimination may be a formal sector phenomenon because of the fact that formal sector jobs are prized jobs and hence resistance to hiring scheduled castes is greater. Further, they find that "it is in the allocation of workers to jobs that discrimination is most likely to be practiced. An employer would have no aversion to employing an untouchable provided that he worked in an untouchable's job" [*ibid.*, 1985, 301].

In a similar vein, Lakshmanasamy and Madheswaran [1995] examine data on technical and scientific manpower in the four southern states of India. They fail to point out, however, that the SCs were only 5.3 percent of the sample—much below their proportion in the population—indicating discriminatory exclusion. They find a statistically significant difference in earnings between the SCs and the others in this highly qualified and educated sample. They also suggest that the level of earnings attained by the SCs may be due to the reservation policy, implying that without the reservation policy the earnings disadvantage would be even greater.

Critics of affirmative action typically ask if the program has penetrated sufficiently deeply to reach the landless majority in the villages or has it only succeeded in creating a SC middle class, that disproportionately corners the benefits of the program? Deshpande [1999] finds that the variance in occupational status in the SC and ST categories is much lower than the "others" (every one other than SC and STs), indicating a lower degree of *intercaste* inequality in these groups. This also suggests that the construction of a rich dalit "creamy layer" (a term used for clustering of beneficiaries of affirmative action at the upper income ends of the SCs; Galanter

[1997, 189] discusses the "creaming effect") may be more imaginary than real and may, in fact, be driven by prejudice.

Regardless, a proper evaluation would have to be made in the context of the disproportionate impact of the development process in general and the consequent effects on intergroup and overall inequality. The same logic applies to evaluation of the alleged adverse efficiency effects of Indian affirmative action. Reservations often are seen to be responsible for lowering quality in educational institutions or efficiency in the workplace, but this argument assumes both quality and efficiency in non-reserved positions is optimal or desirable. The implicit presumption is that those positions are held strictly on the basis of pure and untarnished merit, rather than through the nepotistic connections held by members of the privileged groups.

Opposition to affirmative action is strongest among the most mediocre achievers from the historically privileged and socially dominant group. It makes sense, of course, that the least competitive members of the privileged group would be most hostile toward a social policy that would, if pursued aggressively, render their status far more precarious. The application of affirmative action vary also significantly, both in intensity and content, across countries. While India has reserved seats in Parliament that only can be contested by members of the scheduled castes and tribes, the Indian affirmative action program is limited to the public sector and directly allied institutions, particularly the universities. No law mandates affirmative action in the private sector.

In contrast, Malaysian affirmative action has featured a dimension wholly unparalleled elsewhere in the world, a race-based redistribution of wealth. In 1970, although 55 percent of the Malaysian population, native Malays owned only about a 2 percent share of the Malaysian corporate value. By 1990 via mechanisms executed under the NEP the bumi share had risen to 20 percent or more [Jamaludin, 1998]. Circumstances in Malaysia were ideal for such a redistribution. Rapid economic growth meant that corporate valuation also rose dramatically. The bumi share could be increased by allocating a larger share of a growing pie to native Malay ownership. Indeed, the Chinese Malaysians actually experienced a mild increase in their ownership share over the interval as well. Only foreign owners experienced a marked decline in their share.

While the effects of the NEP on bumi labor market outcomes is ambiguous, the effect on bumi wealth is unambiguous. However, an improved interracial distribution of wealth probably masks a sharply worsened intraracial distribution. Good evidence suggests that only the most well-positioned native Malays have become corporate owners.

Regardless, this dimension of the NEP suggests that a critical aspect of measures to redress intergroup inequality—an aspect that is absent everywhere else—is intergroup redistribution of assets. Certainly no such redistribution has been engineered on behalf of blacks in the United States or the dalits in India.

Two factors further complicate the debate over the Indian system of affirmative action. The process of liberalization and privatization since the early 1990s has meant that in future, the available number of government jobs is likely to grow more slowly, if at all. Funding constraints also mean the rate of growth of government-sponsored

educational institutions is likely to be slower as well. Thus, two of the three arenas of affirmative action are going to be weakened as means of equalizing opportunity.

Second, in 1988 the long pending Mandal Commission Report that recommended similar reservations for "Other Backward Castes" (OBCs) was implemented. The announcement of its implementation resulted in one of the worst episodes of anti-reservation violence in recent times. In addition, fundamental upper caste opposition to caste-based reservations surfaced openly with standard questions: Should caste be used as an indicator of backwardness or should educational and social deprivation be measured independently of caste status? Should reservations be time bound or allowed to extend indefinitely? What if the beneficiaries exceed a certain income limit? Don't reservations fossilize caste divisions and actually create casteism?

The rhetorical echos from opponents to affirmative action in both the United States and Malaysia are astonishing. They ask similarly: Should affirmative action be race based or shouldn't it be class based? Shouldn't affirmative action have a time limit? Should the benefits of affirmative action go to middle-class blacks or middle-class Malays? Doesn't affirmative action consolidate race consciousness rather than move us toward color-blindness?

Of course, the last question inverts the historical circumstances that necessitated the introduction of remedies for racial or ethnic disparity in the first place. Atavistic or not, in the presence or absence of remedies for intergroup inequality, the maintenance of dominant and subaltern status between groups has a universality suggestive of the need to consider the right to left reading of causation in Theil's *T* at least as seriously as the left to right.

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