

## India Growth: Caste as Social Capital

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### 1. Introduction

Indian economy has been growing at a compounded average growth rate [CAGR] of more than 8.5 percent in the last five years. [1]. The largest segment of the economy namely the service sector accounting for nearly 65 percent is also the fastest growing sector. We find that the share of non-corporate sector namely partnership /proprietorship firms in the service sector are significant. It is more than 70 % in activities like trade, hotels and restaurants, transport and other areas like plumber/carpenter/painter/mason/priest etc. Domestic savings have been the primary source of funding of this growth. They constitute nearly 90 percent and the role of Foreign Institutional Investments [FII] and Foreign Direct investments [FDI] has never been more than 10 percent. Of this domestic savings; the role of House hold savings is phenomenal and it constitutes nearly 75% of the domestic savings. Hence the growth is due to households in service sector facilitated by self-financing or financing by extended families/communities. Different castes/communities have played important role in this growth in terms of capital formation, market access; risk mitigation and diversification etc.

### 2. The Share and Growth of Service Sector

We have given in Table-1 the share of different sectors in the Economy and finds that the Services sector constitutes about 65% of the economy in the period 2009-10. It has grown from a figure of 60% to 63% while as agriculture has declined from 19% to 18%. The share of manufacturing and electricity has also shown a decline.

**Table 1**

#### Share of Gross Domestic Product [%]

Category	2004-05	2009-2010
Agriculture and forestry, fishing	19.0	17.8
Mining, Manufacturing, Electricity	20.3	18.8
Services	60.7	63.4
Total	100	100

**Note:** 1. at constant 2004-05 prices 2. We have included construction as part of services.

**Source:** Statement 11.1, pp16, National Accounts Statistics [NAS]—2011, Central Statistical Organization [CSO], G.O.I New Delhi.

The role of Non-corporate sector is very significant in the seven service activities, namely (1) construction, (2) trade, (3) hotels and restaurant, (4) non-railway transport, (5) Storage, (6) real estate ownership of dwellings and business services and (7) other services. We have provided in Table-2 the share of Non-corporate sector in these seven activities. We find that the share of Non-corporate sector, consisting mainly Proprietorship and Partnership firms, is more than 80% in trade [wholesale and retail] hotels and restaurant, and business services. It is around 80% in non-Railway transport and around 60% percent in construction.

**Table-2**

**Share of Non-Corporate Sector in NDP of Service Activities [%]**

Category	1993-94	2008-09
Construction	51.1	55.9
Trade, Hotels and Restaurant	88.8	74.1
Non-Railway Transport	68.9	82.4
Real estate, Business Services	94.2	69.0
Other Services	34.3	41.1

**Source:** Statement 76.1, pp184, National Accounts Statistics [NAS]—2010, Central Statistical Organization [CSO], GOI, New Delhi

Unlike the developed countries, the likes of Wal-Mart, Sears, or Marks and Spencer in retail trade, or Greyhound or Federal Express in transportation, or McDonalds or Burger Kings and Pizza Huts in restaurants are not as yet the order of the day in India. The size of non-corporate sector in service activities and the phenomenal growth rates achieved in the nineties and in this decade needs recognition .In a sense Indian Economy can be called Partnership and Proprietorship economy.

**Table –3**  
**NDP and Growth Rate in different Activities 2004-05 to 2009-10 [Rs. Crore and %]**

Category	2004-05	2009-10	Growth Rate
Agriculture and Allied activities	527289	602340	2.70
Manufacturing	346495	537156	9.16
Of which			
Organized	205844	332746	10.08
Unorganized [Non-Corporate]	140651	204410	7.76
Construction	218511	333804	8.84
Trade Hotels and Restaurant	464750	712649	8.93
Of which			
Trade	424594	653383	9.00
Hotels and Restaurant	40156	59266	8.10
Non-Railway Transport	154791	223658	7.64
Real Estate, Ownership of dwellings and Business Services	229767	360319	9.42
Other Services	223791	312544	6.91
Total NDP [including other Activities]	<b>2651573</b>	<b>3975429</b>	<b>8.44</b>

**Note:** The NDP figures are at 2004-05 prices and the growth rate is the geometric average growth rate at constant 2004-05 prices during the period. It is computed from the NAS 2011

**Source:** Stt 12, pp 21, National Accounts Statistics [NAS] 2011, Central statistical Organization [CSO], GOI, New Delhi.

We have provided in Table-3 the real growth rate of service sector activities between 2004-05 and 2009-10 and we find that all of them have grown above the national income growth rate of 8.44% during the period. Hotels and restaurant has grown by 8.1 % and trade has grown at 9.0% and non-railway transport around 7.6%. We find that the non-corporate sector has a large share and also substantial growth rate in the last decade.

We find that nearly 60 percent of our economy is non-corporate sector consisting of partnership and proprietorship firms. Contrast this with US economy which has corporate sector having more than 75 percent share in their GDP in 2010 [2]

The non-corporate sector consists of tiny, small and medium enterprises and characterized by partnership and proprietorship –self employed organizations. They are primarily held by families/extended families and the role of caste/community in promoting, organizing, financing, marketing is very important. We first find out community –wise ownership of Indian Economy.

### 3. Savings Rate and Households in the Economy

The substantial growth in the national income achieved in the eighties and nineties is due to the increased savings rate in our economy particularly the savings rate of the household sector.

We have provided in Table 4 and Table 5 the share of household sector in savings in our economy. Observe that our savings rate has gone up phenomenally from around 15% to 35% between seventies and 2009-10. Around 70% of savings in the country are due to the household sector that consists of pure consuming (wage earning) households as well as *non-corporate* (mixed income households). A portion of the savings is due to farm households, details of which are not separately available.

**Table 4**

#### **Savings Rate and Contributions by Different Sectors. [%]**

Items/Year	1970-71	1980-81	1990-91	2000-01	2004-05	2009-10
GDS [as of % GDP]	14.6	18.9	23.1	23.7	32.4	33.7
Govt.	2.9	3.4	1.1	(2.0)	2.3	2.1
Pvt. Corporate	1.5	1.6	2.7	3.4	6.5	8.1
Household	10.1	13.8	19.3	22.1	23.6	23.5

**Note:** GDS: Gross Domestic Savings, GDP: Gross Domestic Product, GDP is at current Market prices.

**Source:** Various issues of NAS; CSO New Delhi.

**Table 5****Savings and Household Sector**

	1994-95	1998-99	2000-01	2004-05	2009-10
Gross domestic savings (% of GDP)	251463 (24.8)	374659 (21.5)	499033 (23.7)	1050703 (32.4)	2207423 (33.7)
Of which					
Household sector	199358 (79%)	326802 (87%)	454853 (91%)	763685 (73.0%)	1536071 (70%)

**Source:** Table 10; pp xxxix, National Accounts Statistics 2008; CSO

Not only that the household savings constitute large portion of our domestic savings but also to note that the role of foreign financing is relatively small. We have provided in table-6 the relative shares of domestic savings and foreign flows.

**Table-6****Savings and foreign Flows [Rs Crore]**

Years	1994-95	2000-01	2008-09	2009-10
Gross Domestic savings[GDS]	251463	496272	1798347	2207423
Household Sector[ % of GDS]	199358 [79%]	446217 [89%]	1331033 [74%]	1536071 [70%]
Foreign Investment Flows [ % of GDS]	16133 [6.4]	31015 [6.2]	97918* [5.4]	329815* [15]
A. Direct Investment	4126	18406	161536	176304
B. Portfolio Investment	12007	12609	-63618	153511

**Note:** Data for 08-09 and 09-10 are provisional.

**Source:** Statement 18, pp31; NAS 2011 and Table 155 Handbook of statistics of Indian Economy Sep 2010 RBI

The Indian growth story is by now well known wherein the economy is growing at a CAGR of more than 8 percent in the last decade. Substantial portion of the economy [more than 60 %] is service activities and these are growing at more than 9 %. Service sector consists of construction, trade, Hotels and Restaurant, Transport and other type of business and professional services.

More than 80 percent of the service activities are carried on by non-corporate forms of organizations namely partnership and proprietorship forms of organizations. Most of these are run by families and pertaining to self employed categories.

We find that Indian growth is propelled by domestic savings of which more than 70 % comes from household savings. The role of households both in value addition and also in savings is significant. We will further explore the nature of the growth of these self employed partnership and proprietorships to find that the growth has come about due to caste/community relationships in capital formation, risk sharing and market information etc.

#### **4. The Role of OBC's/SC/ST in Enterprises**

We have the exhaustive Economic Census 1998 and 2005, conducted by the Central statistical Organization [CSO] which covers 30.35 million and 41.83 enterprises engaged in different economic activities other than crop production and plantation. It deals with own account enterprises as well as establishments, an enterprise run by employing at least one hired worker .It covers private profit and non-profit institutions, cooperatives, and all economic activities including Dharamshalas /temples. We have given in table -7and Table-8 the salient findings pertaining to ownership of the enterprises. We find that in 1998 more than 50% of all enterprises are owned by SC/ST/OBC's in the rural areas and the same is around 45% in the total. In 2005 the percentages are 55 for rural and 50 for total. This encompasses manufacturing/ construction / trade / hotel/ restaurant/transport/finance and business and other services.

**Table 7**

#### **Social Group of Owners of the Enterprises [%]--1998**

Item	Rural	Urban	Combined
SC	9.0	5.8	7.7
ST	5.2	2.3	4.0
OBC	36.0	29.1	33.1
Total of above	50.2	37.2	44.8

**Source:** Economic Census, Table 2.6, and Central statistical Organisation, 1998

**Table-8**

**Social Groups of Owners of Enterprises [%]--2005**

	Rural	Urban	Combined
SC	10.00	6.97	8.82
ST	4.60	2.13	3.64
OBC	40.57	34.19	38.08
Total of the above	55.17	43.29	50.54

**Source:** Economic Census 2005. Table 2.5; All India Report- Central statistical Organisation—New Delhi

The Enterprise survey also reveals that 90 % were found to be self-financing. Much of it has have come from informal caste networks [3].The number of establishments financed by financial and non-financial institutions were only 4 %. The remaining was financed by voluntary organizations /Government etc. What is required to be debated is the enhancement of credit systems for the enterprises and more so to those owned by SC/ST and other backward communities. In other words the focus should be on “Vaishya--vaisation” of the large segments of our civil society.

**5. Was there discrimination in Education?**

The renowned Gandhian, Dharampal visited British and Indian archives and reproduced reports which were undertaken by the British in Madras, Punjab and Bengal Presidency for 1800 to 1830. According to a detailed survey done during 1822-25 in the Madras Presidency [that is, the present Tamil Nadu, the major part of the present Andhra Pradesh, and some districts of the Present Karnataka, Kerala and Orissa] that 11,575 schools and 1094 colleges were still in existence in the Presidency and that the number of students in them were 1, 57,195 and 5431 respectively.[4] Much more important in view of our current debates and assumption – is the unexpected and important information provided with regard to broad caste composition of the students in these institutions. We have provided the data in Table-6. We find that the position as early as the first part of nineteenth century was significantly in favor of the backward castes as far as secular education was concerned.

Hence the British inspired propoganda that education was not available to the so called backward castes prior to their efforts is not valid. The “secular” education always played a major tool in social transformation prior to British rule.

**Table-1**  
**Survey of Madras Presidency on Education during 1822-1825**

Share of Sudras in schools	Percentage
Tamil speaking areas	70-80 %
Oriya Areas	62%
Malayalam Areas	54%
Telugu Areas	35-50%
<b>Share of Brahmins in Tamil Speaking areas</b>	
South Arcot	13%
Madras	23%

**Source:** Dharampal; Beautiful Tree—Indigenous Indian education in the Eighteenth Century; Vol-3 of Collected writings; Published by Other India Press Goa 2000

Hence the foundations of modern education were very much present even in the beginning of 19<sup>th</sup> century and this has facilitated growth of entrepreneurship in the later period.

## **6. Social Capital**

Sociologists underline that a nation could be maintained successfully only when people are able to live with each other as groups. The French sociologist Durkheim had earlier noted “A nation can be maintained only if between the state and the individual there is interposed a whole series of secondary groups near enough to the individuals to attract them strongly in their sphere of action and drag them, in this way, into the general torrent of social life... Occupational groups are suited to fill this role, and that is their identity... community orientation creates trust among the members of the society. [5]

Fukuyama notes that trust has an economic value. He says “the ability to associate depends, in turn on the degree to which communities share norms and values and are able to subordinate individual interests to those of larger groups. Out of such shared values comes trust and trust as we will see has a large and measurable economic Value and trust results in social capital.[6]. Aiyar defines Social capital in the following way. “From time immemorial groups of people have created strong communities based on commonly observed rules and mutual self-help. These

social links discourage deviant behavior through ostracism and other social penalties, create a climate of trust in which agreements are honored and grievances redressed and facilitates collective action against threats from outsiders and risks from natural disasters. This is social capital. Unlike financial or human capital it cannot be owned by individuals only by social groups. Being less tangible than financial or human capital it is difficult to measure and so has been ignored in the past. Yet it is an invaluable asset.”[7]

He also stresses the significance of social capital for the economic development of nations. He says” But neither human nor financial capital can adequately explain why some nations succeed and others fail. A third element called social capital has long been emphasized by sociologists and is now increasingly recognized by economists. Sociologists like Robert Putnam have demonstrated that enormous economic benefits flow from social capital. Contrasting the huge economic success of northern Italy with the relative failure of the southern part, he finds that the mafias have eroded social capital and hence stalled economic development in the south. High levels of trust greatly reduce risks and costs and so encourage enterprises and innovation while reducing the costs of redress. So social capital ultimately translates into financial capital. [8]

Mr. Gurucharan Das the corporate chief turned author and analyst say “In the nineteenth century, British colonialists used to blame our caste system for everything wrong in India. Now I have a different perspective. Instead of morally judging caste, I seek to understand its impact on competitiveness. I have come to believe that being endowed with commercial castes is a source of advantage in the global economy. Bania traders know how to accumulate and manage capital. They have financial resources and more important, financial acumen. They have an austere lifestyle and the propensity to take calculated risks. They have proven their flexibility of mind as they graduated from trading to industry. These constitute significant strengths. Joel Kotkin demonstrates these strengths in the case of Palanpur Jains, who have used their castes and family networks in wresting half the global markets for uncut diamonds from the Jews’ [9]

## **7. Role of Caste: An Illustration**

The World Bank suggests that the remarkable growth of Tirupur [Tamil Nadu] is due to the coordinated efforts of Gounders many of them not even matriculates.

“Since 1985 Tirupur has become a hotbed of economic activity in the production of knitted garments. By the 1990s, with high growth rates of exports, Tirupur was a world leader in the knitted garment industry. The success of this industry is striking. This is particularly so as the production of knitted garments is capital-intensive, and the state banking monopoly had been ineffective at targeting capital funds to efficient entrepreneurs, especially at the levels necessary to sustain Tirupur’s high growth rates.

What is behind this story of development? The needed capital was raised within the Gounder community, a caste relegated to the land-based activities, relying on community and family network. Those with capital in the Gounder community transfer it to others in the community through long-established informal credit institutions and rotating savings and credit associations. These networks were viewed as more reliable in transmitting information and enforcing contracts than the banking and legal systems that offered weak protection of creditor rights”[10].

The amount of networking and contract enforcement mechanism available with caste institutions are not fully appreciated.. The same is true regarding Nadar community in Virudhunagar area pertaining to matches and printing industry.

## **8. Clusters and Caste**

Clusters occupy a significant place in the economic scene in India. They play a crucial role in the development of the Indian businesses. Their contributions to the national income, employment, exports and innovation is very significant. The United Nations Industrial Development organization [UNIDO] had noted that in India “it is estimated that there are approximately 350 small scale industrial clusters and around 2000 rural and artisan based clusters contributing almost 60% of the manufacturing exports and 40 % of the employment in the manufacturing industry. [11]. The ministry of Small scale Industries Government of India has estimated that there are 2042 clusters of which 1223 are in the registered sector in 26 states and another 819 in the unregistered sectors in 25 states/union territories. They constitute significant portions in output, employment, exports in different states. [12]Actually the study of several clusters spread

across several regions of the country points to the role of community in the emerging entrepreneurial development. [13].

The clusters are promoted and run by ordinary persons –most of whom are first generation entrepreneurs. The Sankagiri transport cluster of Tamil Nadu with the second largest lorry traffic in the country more than 80 percent were earlier drivers and cleaners. Similarly in the knitwear industry in Tirupur [Gounders] more than 90 percent were from Agricultural backgrounds. The descendants of farmers from Palanpur and Kathiawar have created the diamond hub in Surat which provides employment to large numbers in Antwerp and New York. The clusters have entrepreneurs with less formal education and more practical knowledge. There are studies to show that Tirupur Gounders [knitwear exporters] or Sivakasi Nadars [matches/crackers and printing] etc have mostly less than high school education but significant shop floor experience. This experience is gained in the units run by other family members or community members. [13] Hence community becomes a crucible for gaining practical knowledge.

Entrepreneurs build clusters as is seen by Morvi clocks and Surat diamonds. Jamnagar brassware is another example. Actually clusters are not anonymous group of individual entrepreneurs but interconnected extended families/caste and communities.

The important aspect of clusters are that they are relationship based business rather than rule based. They are also not state dependant but self funded and developed. Once the clusters develop the entrepreneurs establish schools, colleges, and other common facilities like marriage halls required for their communities. In almost all the clusters one could notice educational institutions established by the local communities. Clusters develop as full-fledged centers of economic and social /religious activities.

Another important characteristic is the generation of Funds and mobilization of resources from close and local sources; as we already saw significant portion of economic activity is self financing or funded by extended families/community networks.

This also facilitates dealing with failures due to risk taking. Actually there is risk sharing and failure is not looked down upon. The extended family/community extends its help in the context distress/failures and these acts as a major cushion in undertaking risky activities like exploring newer markets or innovating new product lines. Clusters act as drivers of economic activities facilitated by family/extended family/caste networks.

Of course large amount of literature is available on Marwaris, Sindhis, Katchis, Bhoras, Patels, etc and the nature of global networks some of them have created. In a financial sense caste provide the edge in being a risk taker since failure is recognized and condoned and sometime encouraged by the group. Instead of creating large number of “proletariat” in the fashion of nineteenth century models. For that we need to recognize caste as the natural social capital present in our system.

Incidentally one of the arguments given is regarding enhancing “Social Status” of these segments. Social backwardness, it is pointed out, as a valid reason for caste based reservations compared to reservations based on say economic criteria. But as M.N. Srinivas the doyen of sociologists point out that “An important feature of social mobility in modern India is the manner in which the successful members of the backward castes work consistently for improving the economic and social condition of their caste fellows. This is due to the sense of identification with one’s own caste, and also a realization that caste mobility is essential for individual or familial mobility” [14]

It is also assumed that caste is a rigid hierarchical system which is oppressive. But it is pointed out by the renowned sociologist Dr. Dipankar Gupta that “In fact, it is more realistic to say that there are probably as many hierarchies as there are castes in India. To believe that there is a single caste order to which every caste, from Brahman to untouchable, acquiesce ideologically, is a gross misreading of facts on the ground” The truth is that no caste, howsoever lowly placed it may be, accepts the reason for its degradation”[15]Dipankar Gupta ;Interrogating Caste; pp1; Penguin Books 2000].

## **9. Caste and New Capitalists**

In his pioneering work on New Capitalists and Caste, Harish Damodaran elaborates on the emerging trends of new businesses and castes. [16] He delineates three general trajectories of industrial transition by communities. "To further elaborate --The first is the conventional Bazaar- to- Factory route involving the various Bania and Vaishya groups. The second from office to Factory, refereed to the Brahmins, Khattris, Kayasthas, The Bengali bhadralog, and other scribal castes with a distinct urban middle class orientation. These sections traditionally dominated the bureaucracy and white colar professions and their entry into business was

essentially a post –independence development. The third pathway; from field to factory covering those communities classified as belonging to other backward castes [ OBC’s] like the kammars,Reddy, Gounders, Jats, Patidars,Marathas,Nadars,Ramgarihas, who can be classified as “rural middle class’ whose political ;social and economic empowerment was one of the epochal features of last century. Their journey into corporate boardrooms howsoever uneven across regions paralleled a similar transition achieved by the urban scribal castes. Both these urban and rural middle class led trajectories have undermined the time honoured association of “business communities” with an exclusive Vaishya [Bania] order

The recent studies by reporters of Mint [17] bring out the issue of caste facilitating the emergence of newer businesses in different locations of the country. The role of extended family and caste has been recognized in the upward mobility of middle castes in commerce and business

## **10. Dalits Entrepreneurship**

We also find that Dalits are increasingly getting into businesses and entrepreneurship. Dalit Indian Chamber of Commerce and Industry [DICCI] is playing an important role in this. [18].

The members were consulted by the planning commission recently as part of the pre-budget consultation. It marks the emergence of a nascent trend in India of enterprising dalits choosing to create independent businesses instead of depending on quotas in government jobs to get ahead.

Some of them have built impressive empires like Kalpana Saroj who heads Kamani Tubes with an estimated turnover of Rs 500 crore and Ratibhai Makwana whose Rs 300-crore Gujarat Pickers is one of the country's largest polymer distributors. The delegation was led by Milind Kamble saw the invitation from the Plan panel as an acknowledgement that Dalit entrepreneurs are making their presence felt in Indian business circles. "It's a great day for us that the government wants to hear our expectations from the union budget," he said. "We want the government to formulate a policy to help Dalit businesses to grow so that we get out of the reservation trap. But there's more to the Delhi visit than a meeting with Montek. The presence of such a large group of dalit business leaders in the Capital will also be an occasion to do some image re-engineering by presenting the changing face of these communities. Delegation members will hold an open dialogue with intelligentsia representatives on their plans for 2011 and their dreams and ambitions. [19]

We also find that caste in politics divides but caste in Economics unites. Not only that, castes which have used business as a route for upward mobility has succeeded much better than those who tried to use politics. The examples, which come to mind, are Nadars and Gounders in the former category and Vanniars, Thevars and Dalits in the later category in Tamil Nadu. [20]

It is required for policy planners and experts to work on a road map to calibrate changes in our context.

## **11. Conclusion**

The metropolitan elite and rootless experts have concluded that caste is bad. They have made it into a “four letter” word and so every Indian is expected to feel guilty whenever caste is mentioned and talked about. In international forums caste is used as a stick to beat anything connected to Indian religions, customs, and culture. In other words slowly caste has been made to be for Indians what is “holocaust” for Germans and Austrians.

We have an uncanny ability to self-abuse ourselves in a masochistic way. But more tragic is our enthusiasm to convert all our strengths to weaknesses since some white men started abusing Indians for having caste system. We fail to recognize that it is a valuable social capital, which provide cushion for individuals and families in dealing with society at large, and more particularly the State. The Anglo-Saxon model of atomizing every individual to a single element in a right-based system and forcing him to have a direct link with the State has produced disastrous effects in the west wherein families have been destroyed and communities have been forgotten. Every person is standing alone in a sense stark naked with only rights as his imaginary clothes to deal directly with the State. The State also does not have the benefit of concentric circles of cushions to deal with individuals. The State has taken over the role of father and mother as well as spouse in terms of social security, old age homes and rights of children to sue and divorce parents!

Caste has been made a curse by the intellectuals based on the half-baked knowledge and acceptance of the Euro Centric model of individual, which is right based rather than duty, based system. Hence one way to overcome it is to have reservations since the euro centric model suggests that. If you decide to carry the cross or burden which others impose then you begin to impose the solution provided by them. In a sense the debate does not distinguish between caste discrimination and caste as a social capital. The cry to abolish caste is to “Semitise” or

“homogenize” Indian society which has been attempted by many “reformers” but has not been successful.

Caste has played an important role in the consolidation of business and entrepreneurship in India particularly in the last fifty or so years. The economic development has taken place in the “India Uninc” or the partnership/proprietorship activities financed by domestic savings and facilitated by clusters and caste/community networks. Actually caste has been a major social capital in our growth process and it has not been adequately recognized. This paper explores the economic growth constituents and catalytic components. It also identifies the role of caste in the growth process among the emerging entrepreneurial groups.

We need to recollect the important observation made by Swami Vivekananda in one of his famous lectures in response to the welcome address of Hindus of Jaffna in 1897. He says “The older I grow, the better I seem to think of these [caste and such other] time-honored institutions of India. There was a time when I used to think that many of them were useless and worthless, but the older I grow, the more I seem to feel a diffidence in cursing any one of them, for each one of them is the embodiment of the experience of centuries.” [21]

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