How does Caste Affect Entrepreneurship?
Birth vs Worth
By Sampreet Singh Goraya

Introduction
➢ Huge TFP differences across countries, Hall & Jones (1999).
➢ Misallocation seems to be an important factor.
Banerjee et al. (2005) & HK (2009)
• Financial frictions, Government policies - eg: size dependent policies, Informational frictions & Adjustment costs
➢ No Systematic evidence on the role of informal institutions.
• This paper evaluates the effects of the caste system in India

Caste & Misallocation
➢ Extensive margin: low caste, can not enter the market.
➢ Intensive margin: those who enter, can not access capital.
• High caste controls much of the Capital & Wealth.
• Top 30 traded firms (sensex) owned or run by high caste (OTH). 2012-46 Billionaires in India but none is low caste (LC).

“Dalits (LC) are second to none as far as intelligence and entrepreneurship is concerned. We only have to give them an opportunity,”
(J J Irani, Director, Tata Sons )

Main Results: Stylized Facts
➢ Fact 1: low caste are less likely to enter entrepreneurship but more productive (TFPR, profit) on average.
➢ Fact 2: low caste have lower K/L ratio but higher returns to capital than high caste.
➢ These differences converge over age and size.
➢ Fact 3: caste-dependent component represents 1-25% of the total misallocation.
➢ Caste-dependent misallocation higher “ in regions with “ stronger caste system.

Main Results: Model
Dynamic stochastic GE model:
➢ Each period agents make their occupation decision.
➢ Caste dependent fixed costs and financial constraints.

Calibration:
➢ Match entrepreneurship rates => fixed-costs
➢ Credit-gdp ratios => degree of financial friction

Outcomes:
➢ LC face higher fixed costs (80%) and lower borrowing limits (22%).
➢ Such asymmetries implies a 2.54% & 6% lower TFP & GDP.
➢ Intensive margin => 40% & Extensive margin => 60%.

Conclusion:
➢ Caste dependent misallocation is substantial and lowers the Income per capita by 6% in India.
➢ Such distortions widen the across caste inequalities in consumption and wealth.
➢ Also lowers the scale of operation of the average firm in the economy.

Table: Share of Population and Non-agricultural Enterprises across castes

<table>
<thead>
<tr>
<th>Caste</th>
<th>Population</th>
<th>Enterprises</th>
<th>One employee</th>
<th>Outside labor</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>LC</td>
<td>24%</td>
<td>15%</td>
<td>14%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>NC</td>
<td>45%</td>
<td>45%</td>
<td>44%</td>
<td>19%</td>
<td>34%</td>
</tr>
<tr>
<td>OTH</td>
<td>31%</td>
<td>45%</td>
<td>44%</td>
<td>20%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Notes: The entries in the table are occupied with non-agricultural enterprises in the Economic census 2015. The population statistics for low caste and middle caste are from the Census 2011. Other Caseload Survey 2010-11. Outward labor rates also include the household.

Figure: Capital intensity & MRPK across sectors: 2006

Figure: Caste-dependent misallocation of capital: 2008