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Post-reform Trends in Wage-Differentials: A Decomposition Analysis for India

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Abstract

Wage inequality often creates much broader socio-economic inequality and may even accentuate them. For attaining equitable development convergence in wages and earnings is therefore desirable. This paper explores trends and patterns in wage differentials in India in the post reform period. Using decomposition technique it compares trends in within group and between group disparities – across occupational group, gender, job type, and region. It is observed that while inter-group disparity or vertical differentials are coming down in terms of wage rates, they are increasing in terms of total earnings because of more than proportionate rise in disparity in labour demand and job availability. Intra-group wage differentials have increased among most of the occupations as also among several sub-groups, leading to polarization within groups. Decomposition analysis shows that wage differential across some groups are mainly due to the skill factor while for some other groups it is pure discrimination or unfavourable labour market conditions which is creating the wage differential. Only an inclusive growth strategy will lead to lowering of wage differentials and removal of disparities in living standards across space and people.