

# Income Inequality in India: Pre- and Post-Reform Periods

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India witnessed a widening of income inequality during the phase of acceleration in economic growth in the post-reform period (1993-94 to 2004-05). This paper analyses the issue by using different types of inequality measurements like general entropy indices, kernel density graphs, percentile of income graphs and field decomposition. It finds two major features of a rising inequality in urban areas: (a) even with a doubling of per capita consumption growth in the post-reform decade, the decline in poverty was less by a quarter compared to the pre-reform decade, and (b) in the post-reform period, the growth of the wage rate of regular workers was negative up to the 50th percentile of wage earnings, and beyond that point, wage rate growth turned positive and rose sharply to reach 5% per annum in highest quintile of wage earnings.

The Indian economy witnessed a higher growth in the gross domestic product (GDP) associated with rising concentration of income and wealth (Sengupta et al 2008). The growth of employment in the post-reform period (1993-94 to 2004-05) was mainly concentrated in the self-employment category, while the growth of wage employment remained more or less stagnant. The rise in self-employment is argued as a distress movement from wage employment, which also enhances income inequality among the workers (Chandrasekhar and Ghosh 2007). On one hand, it is expected that with increased investment, trade and output, more and better employment opportunities would emerge and labour mobility would increase, leading to narrowing down of horizontal wage differences among workers with similar skills and in the same type of jobs. On the other hand, as the demand for skilled labour would increase, wage differential between skilled and unskilled labour is expected to rise. The overall impact would depend on how broad based the labour market in the economy is, whether movement across skill-barriers is relatively easy, and whether institutions for re-training and re-deployment are in place (Mukherjee 2007). Most of the studies in past are limited to grouped data and do not provide enough disaggregation in order to have a clear idea about earnings and inequality in different segments of the labour markets. However, these studies indicate that labour market generates differences in wage rate and earnings that are based on geographical locations, level of education, industry, social group and gender.

There is an ongoing debate among the researchers, whether the recent growth had benefited only a few and led to increasing disparities and inequalities (Gustafsson et al 2008; Dev and Ravi 2007; Sengupta et al 2008; Bhaduri 2008). This study explores the levels of wages and income, disparities and inequality in them. It explores whether the changing employment patterns can explain income/wage inequality in India. This paper is broadly divided into two analytical sections. In the first section, we discuss variation in the wage level and changes therein among regular and casual workers. In the second section, we analyse the inequality in income (consumption) of households and inequality of earnings among wage workers. Before getting into the analytical part, we describe in short the database of this study.

In this study, unit level data of the National Sample Survey Organisation (NSSO) for the years, 1983, 1993-94 (1993) and 2004-05 (2004) have been used. The wage data is available only for workers, who reported themselves as casual or regular workers in their current weekly status. The wage rate is the average daily wage. It is obtained by dividing total reported earnings

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received in a week by the total number of days of work in a week. The wage rate is further deflated using consumer prices index for agricultural labourers (CPIAL) for rural areas and consumer price index for industrial workers (CPIIW) for the urban areas. All wage rates have been deflated to the base of 1993-94 (1993) prices using the respective indices. For deflating average per capita consumption expenditure (APCE), we have used the implicit official poverty line deflator with 1993-94 as base. We have also taken care of outliers of the unit level data by omitting them.

## 1 Wage Levels and Growth Trends

### 1.1 Wage by Employment Status

Table 1 presents prevailing average daily wage rates during the pre- (1983 to 1993-94) and post-reform (1993-94 to 2004-05) periods for regular and casual workers both in rural and urban areas for 15-59 age groups. Wage workers experienced positive growth in the wage rate in both pre- and post-reform periods. The average daily wage of regular workers had risen by 95% in rural areas and 71% in urban areas, whereas the wage of casual workers rose by 71% in rural and 50% in urban areas in real terms during 1983-2004. There was a slower increase in the wage rate of casual workers in the whole period 1983-2004. This had occurred even when the wage rates of regular workers were several times higher than the wage rates of casual workers. The rural-urban ratio of the wage rate showed some decline during the last two decades. In 2004-05, the regular workers received 30% more wages than their rural counterparts and for casual workers the corresponding difference was 20%.

**Table 1: Pattern of Regular and Casual Wage (in Rs) of 15-59 Age Groups at 1993-94 Prices**

Sector	Wage Per Day			Growth Rate (%)			Ratio		
	1983	1993	2004	1983-93 2004	1993-2004	1983-2004	1993/1983	2004/1993	2004/1983
<b>Regular</b>									
Rural (R)	40	57	78	3.43	2.89	3.15	1.43	1.37	1.95
Urban (U)	59	77	101	2.57	2.50	2.53	1.31	1.31	1.71
Total	51	69	92	2.92	2.65	2.78	1.35	1.33	1.80
R/U	1.5	1.4	1.3	0.7	0.9	0.8	-	-	-
<b>Casual</b>									
Rural (R)	17	21	29	2.03	2.98	2.52	1.24	1.38	1.71
Urban (U)	24	30	36	2.15	1.67	1.90	1.25	1.20	1.50
Total	17	22	30	2.49	2.86	2.68	1.29	1.36	1.76
R/U	1.4	1.4	1.2	1.1	0.6	0.8	-	-	-

Source: Computed from Unit Level Data of Various NSS Rounds.

The regular wage had increased relatively slower in the post-reform period largely due to the lower growth rate of regular wage in rural areas. In contrast, the casual wage rate showed a faster increase in the post-reform period due to higher growth of wage in rural areas even when the growth rate of urban wage had decelerated in the post-reform period. This had not accentuated the average wage gap between regular and casual wage earners in the post-reform period.

### 1.2 Wage by Broad Industrial Classification

In India, rural casual labour constitutes the single largest segment of the total workforce. Among rural casual labourers, agricultural labourers occupy a predominant position. So, the rural agricultural wage rate is considered one of the most robust

indicators of economic well-being, not only of agricultural labourers, but also the overall rural population (Deaton and Dreze 2002). The non-agriculture wage rate has been historically higher than the agricultural wage rate in India. But in the last two decades some narrowing down of this wage gap was observed, particularly in the case of regular wage workers (Table 2). But, even in 2004-05 the wage level of non-agricultural workers was around two times higher than the wage for regular agricultural workers. The higher growth of agricultural wage for regular workers in the post-reform period was largely because in India, the attached agricultural labour that constituted a substantial part of the regular agricultural workers had declined considerably in number and the regular agricultural workers now largely consist of government sector workers. Casual workers' wage rate showed a contrasting picture in the same period. This is probably due to the slowing down of productivity growth in agriculture (Himanshu 2005; Chavan and Bedamatta 2006).

The sectoral wage rate in urban areas showed that the regular wage was at least more than double of casual wage (Table 3).

**Table 2: Trend of Rural Agricultural and Non-agricultural Wage (in Rs) of Regular and Casual Workers of 15-59 Age Groups at 1993-94 Prices**

Sector	Wage Per Day			Growth Rate (%)			Ratio		
	1983	1993	2004	1983-93 2004	1993-2004	1983-2004	1993/1983	2004/1993	2004/1983
<b>Regular</b>									
Agricultural	20	26	39	2.53	3.75	3.15	1.30	1.50	1.95
Non-agricultural	48	62	82	2.47	2.57	2.52	1.29	1.32	1.71
Ratio	2.4	2.4	2.1	1.0	0.7	0.8	-	-	-
<b>Casual</b>									
Agricultural	15	20	25	2.78	2.05	2.40	1.33	1.25	1.67
Non-agricultural	23	29	38	2.23	2.49	2.36	1.26	1.31	1.65
Ratio	1.5	1.5	1.5	0.8	1.2	1.0	-	-	-

Source: Same as Table 1.

**Table 3: Pattern of Urban Sectoral Wage (in Rs) of Regular Workers of 15-59 Age Groups at 1993-94 Prices**

Sector	Wage Per Day			Growth Rate (%)			Ratio		
	1983	1993	2004	1983-93 2004	1993-2004	1983-2004	1993/1983	2004/1993	2004/1983
<b>Regular</b>									
Primary	56	80	139	3.46	5.15	4.32	1.43	1.74	2.48
Secondary	57	70	82	1.98	1.45	1.71	1.23	1.17	1.44
Tertiary	60	80	108	2.78	2.77	2.77	1.33	1.35	1.80
Tert/prim	1.07	1.00	0.78	0.8	0.5	0.6	-	-	-
Tert/sec	1.05	1.14	1.32	1.4	1.9	1.6	-	-	-
<b>Casual</b>									
Primary	20	23	26	1.34	1.12	1.23	1.15	1.13	1.30
Secondary	26	33	40	2.30	1.76	2.02	1.27	1.21	1.54
Tertiary	24	29	35	1.82	1.72	1.77	1.21	1.21	1.46
Tert/prim	1.20	1.26	1.35	1.4	1.5	1.4	-	-	-
Tert/sec	0.92	0.88	0.88	0.8	1.0	0.9	-	-	-

Source: Same as Table 1.

The wage rate of regular workers in urban areas for primary sector showed a huge jump in growth between the pre- and post-reform period, although its share to total urban employment is low. The growth rate of wages rate of tertiary sector regular workers had been substantially higher than the secondary sector workers both in pre- and post-reform period. Reverse was the scenario for casual workers. This reflects the existence of strong dualism in tertiary sector (Mazumdar and Sarkar 2007). For regular workers, the widening wage disparity between secondary

and tertiary sector is probably a reflection of the service-oriented nature of economic growth. The emergence of export-oriented new technology service sector such as software industries, whose wage rates are probably the highest across all industries is crucial in pushing up the upper limit of the wage rate across industries. At the same time, the distress development in the agricultural sector due to declining productivity continues to push workers into the urban informal segments of service sector as casual workers, and thus, widening the wage gap between secondary and tertiary sector.

### 1.3 Wage across Different Educational Level

The educational achievements of workers play an important role in determining earnings and wages in segmented labour markets. Workers with higher educational achievements face fewer barriers across the different segments of the labour market, while those with lower levels of education face barriers in entering into better paid segments of the labour market. Accordingly, workers with higher educational achievements are likely to get higher wages as compared to those who are less educated.

Tables 4 and 5 depict wages for regular and casual workers across educational categories. Even with the same level of education, the rural-urban divide remains because rural workers face various other institutional barriers in accessing the high paid jobs in urban areas. This is reflected in the lower wages in rural areas compared to those in urban areas at every level of education. For regular workers, both in rural and urban areas, wages increased significantly with an increase in the educational level of workers. The discerning feature is that there are certain thresholds of educational level in both rural and urban areas beyond which wages increased significantly. Both in rural and urban areas, there was not much difference in wages of illiterate and up to primary levels of education. Even the middle level of education brought a marginal difference in daily earnings. Wages increased significantly only after at least secondary level of education.

The wage differential across educational categories for regular workers had been stable in long run. Among regular workers, the wage rate of the highest educated, graduate and above, had been consistently over three times to that of primary and below during the whole period. However, the ratio showed a marginal decline in all educational groups during the pre-reform period

**Table 4: Levels and Growth of Regular Wage (in Rs) by Educational Status of 15-59 Age Groups at 1993-94 Prices**

Level of Education	Wage Per Day			Annual Growth Rate (%)	
	1983	1993	2004	1983-93	1993-2004
<b>Rural</b>					
Not literate	21	28	35	2.83	2.22
Up to primary	28	36	47	2.68	2.39
Up to middle	33	42	47	2.44	0.84
Up to secondary and higher secondary	54	64	80	1.71	2.03
Graduate and above	76	98	146	2.41	3.73
<b>Urban</b>					
Not literate	33	41	40	2.04	-0.18
Up to primary	41	48	47	1.47	-0.30
Up to middle	42	47	53	1.24	0.95
Up to secondary and higher secondary	60	72	88	1.68	1.83
Graduate and above	98	125	178	2.34	3.23

Source: Same as Table 1.

but increased since 1993. In the post-reform period for urban areas, the growth of wage rate turned positive only after middle school education level and went up substantially to reach high level at graduate and above education level showing a rise in inequality among these sets of workers. The growth of wages of regular workers in rural areas did not show any clear pattern by educational levels.

It is evident from Table 5 that the increase in casual wage did not show any clear pattern across educational level. Even higher educated casual workers did not get substantially higher wage compared to illiterate workers in 2004.

**Table 5: Levels and Growth of Casual Wage (in Rs) by Educational Status of 15-59 Age Groups**

Level of Education	Wage Per Day			Annual Growth Rate (%)	
	1983	1993	2004	1983-93	1993-2004
<b>Rural</b>					
Not literate	15	19	25	2.11	2.49
Up to primary	18	23	30	2.27	2.23
Up to middle	20	26	32	2.14	2.10
Up to secondary and higher secondary	23	27	35	1.71	2.30
Graduate and above	40	26	36	-4.16	3.13
<b>Urban</b>					
Not literate	21	26	31	1.80	1.66
Up to primary	26	30	37	1.34	2.15
Up to middle	26	32	37	2.03	1.44
Up to secondary and higher secondary	28	35	41	2.01	1.53
Graduate and above	63	40	48	-4.30	1.79

Source: Same as Table 1.

The possible reason could be that better educated persons join the casual labour markets only out of distress and stay in casual labour markets for a temporary period.

## 2 Income and Earnings Inequality

India witnessed a widening of income inequality along with acceleration in the growth of GDP during the post-reform period. Comparatively speaking, the increase in inequality had been higher during post-reform period, after a period of negligible rise in inequality in the decade before that. The level of inequality was higher and was increasing at faster rate in the upper income brackets, and the disparity was greater in the urban areas than in the rural areas. Income inequality was considerably low among the lower income brackets and in rural areas (Rani 2008). In this section different methods of inequality measurements like general entropy indices, kernel density graphs, percentile of income graphs and decomposition analysis had been used to elucidate this phenomenon.

### 2.1 Household Income Inequality

Table 6 (p 48) presents the inequality trends in rural and urban India separately over the last two decades. APCI is used as a proxy for per capita income. In the pre-reform decade, the inequality as shown by Gini index and different generalised entropy measures showed decline in inequality except for GE(2) only in rural areas.

In the post-reform period (1993-94 to 2004-05), the inequality in both rural and urban areas had increased substantially, thus making inequality in 2004-05 higher than that of 1983 in all different measures of inequality. A substantial rise in inequality has been noticed particularly in GE(2). One can argue that opening up

of the economy to global trade is likely to show a rise in this measures of inequality, i e, raising inequality in the income of the group of the households' way above the poverty line. What is disturbing is the fact that inequality measures like GE(0) that gives more weights to lower part of the distribution showed a substantial rise in the post-reform period and it was more pronounced in the urban areas. It indicates that the trickle-down effect of growth on the decline of poverty might have weakened considerably.

However, the overall (rural and urban combined) income inequality showed a continuous increase in all measures over the years. The increase in inequality was sharper for Gini, GE(0) and GE(1) in the post-reform period. Only in the case of GE(2), the increase had been marginally faster in pre-reform period. Another interesting point is that that GE(2) figures for all areas were larger than the rural and urban counterpart for the years 1993-94 and 2004-05. It indicates that the rural-urban differences in inequality in upper income groups must be rising. We will deal with this issue later.

We further explore the issue of inequality measured by Kernel Density Function (KDF) distribution of APCE over time, separately for the rural and urban areas. This type of graph gives a visual idea about the nature of inequality. The KDF distribution may be viewed as histograms that have been smoothed to iron out minor irregularity in the observed data (Deaton 1997) and it draws the eye to the essential features of the distribution.

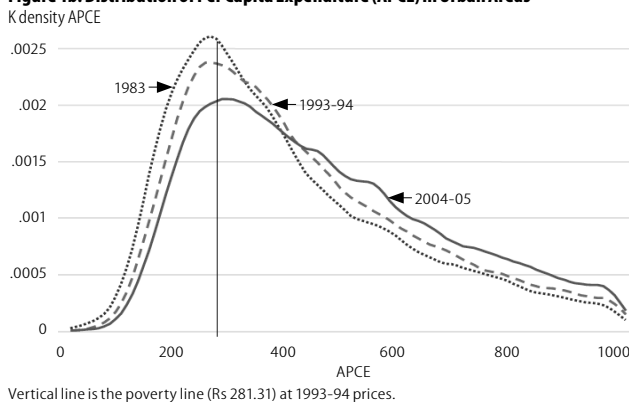
In Figures 1a and 1b, we plot the per capita expenditure (APCE) distribution separately for rural and urban areas along with a line which represents poverty line. In the rural areas (Figure 1a), the peak (mode) was substantially left of the poverty line in 1983 and in which year 1993-94 the peak (mode) was just left to the poverty line and most of the households were highly concentrated in the vicinity. Further, the whole distribution had uniformly shifted to the right and we found that the poverty declined by

**Table 6: Income Inequality Trends in India**

Sector	Gini	GE(0)	GE(1)	GE(2)
<b>Rural</b>				
1983	0.319	0.169	0.195	0.324
1993-94	0.298	0.148	0.184	0.454
2004-05	0.320	0.172	0.223	0.531
<b>Urban</b>				
1983	0.367	0.223	0.249	0.422
1993-94	0.357	0.209	0.239	0.417
2004-05	0.389	0.250	0.290	0.534
<b>All areas</b>				
1983	0.337	0.188	0.217	0.370
1993-94	0.347	0.197	0.240	0.504
2004-05	0.376	0.233	0.292	0.625

GE classes of measurements are Generalised Entropy measures. GE(0) gives more weights to lower tail of the income distribution, GE(1) gives equal weights and GE(2) gives more weights to the upper tail of income distribution. Source: Same as Table 1.

**Figure 1b: Distribution of Per Capita Expenditure (APCE) in Urban Areas**



Vertical line is the poverty line (Rs 281.31) at 1993-94 prices.

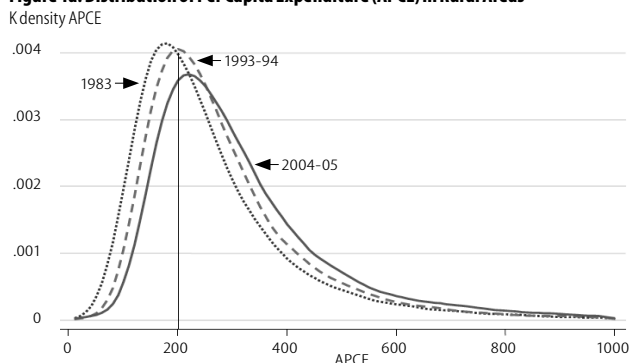
8 percentage points during the pre-reform period. In 2004-05, the peak had moved right of the poverty line and the mode of the distribution also had substantially fallen.

In such a scenario one would expect that with higher general economic growth, a larger proportion of population would be out of poverty. Between 1993-94 and 2004-05, poverty declined by 9 percentage points. The longer and thicker the right side of the distribution from the peak compared to the left side of the distribution, greater is the inequality. In the post-reform period, some rise in the inequality could be observed in the rural areas.

In the urban areas (as shown in Figure 1b), the height of the peak was smaller compared to the rural areas and the concentration of per capita expenditure of the households around the vicinity of poverty line was comparatively less. The pre- and post-reform period showed some contrasting scenario. First, the left side of the KDF graph showed a higher shift in the pre-reform period compared to post-reform period giving an indication that in the former period households below the poverty line experienced a higher APCE growth. Second, the poverty line that was right of the peak in 1983 and 1993-94 distribution, but shifted marginally left of the peak in 2004-05 with substantially lower value. Consequently with general economic growth, the pre-reform period saw a decline of poverty by 8.4 percentage points and in post-reform period poverty declined by 6.7 percentage points. Third, the shift of the distribution to the right in the last two decades had not been uniform. On the right side of the distribution (beyond APCE of Rs 400), one can discern a parallel shift in the APCE distribution in the post-reform period. It suggests that there had been a substantial increase in the income and inequality in the upper half of the distribution.

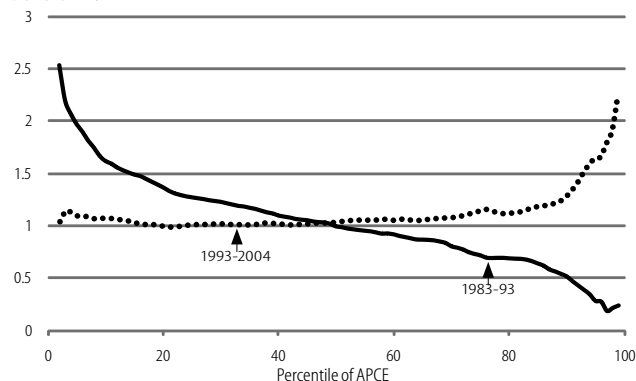
Following Topolova (2008), we look at the percentile distribution APCE in both rural and urban areas to examine it in detail. Figures 2 and 3 (p 49) present the compound annual growth of percentile APCE for pre- and post-reform periods in rural and urban areas separately. In the rural areas, mean growth of APCE in pre- and post-reform periods were 0.84% and 1.34%, respectively. In the pre-reform period, the percentile growth of APCE was downward sloping and it declined consistently from 2.5% to well below 0.5%. In the post-reform period, the growth of APCE was virtually stable around 1% up to 80th percentile and then it shot up to more than 2% in higher percentile of APCE. As APCE grew uniformly at 1% rate up to 80 percentile in post-reform

**Figure 1a: Distribution of Per Capita Expenditure (APCE) in Rural Areas**

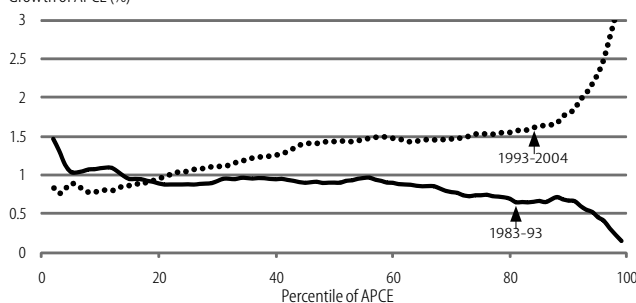


Vertical line is the poverty line (Rs 205.64) at 1993-94 prices.

**Figure 2: Compound Annual Growth of APCE in Rural Areas**  
Growth of APCE



**Figure 3: Compound Annual Growth of APCE in Urban Areas**  
Growth of APCE (%)



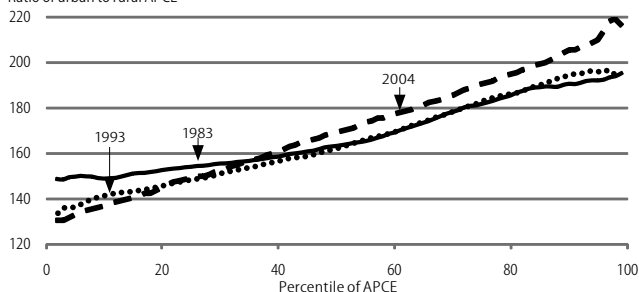
period even with higher APCE growth, the decline in poverty in percentage point was similar in both periods.

In urban areas the mean growth of APCE was more than doubled in post-reform period compared to pre-reform from 0.75% to 1.77%. But as it is clear from the growth of APCE curves, the shape of the curves in both periods reversed. It was moderately downward sloping during pre-reform period, but became steep upward sloping in the post-reform period. The pro-rich bias of the growth pattern was found to be much more striking in the urban areas. The implication of this kind of growth on poverty reduction becomes quite obvious. It is clear now why even with doubling of average APCE growth in post-reform period, the decline in poverty was less by quarter in the post-reform period in absolute percentage term.

The analysis of inequality showed that the disparity in income rose sharply in the urban economy, at least in the post-reform era. In other words, it denotes that the disparity in household welfare between rural and urban areas had increased. We now picture the rural-urban differences household welfare at different levels of incomes.

The urban to rural ratio of APCE showed rising differences at higher level of APCE, the lines were upward sloping (Figure 4). The slope of this line was lowest in 1983 and highest in 2004-05. In the pre-reform era the ratio declined up to 40 percentile indicating higher rise in APCE of rural households up to that level. Beyond that level, the ratio remained virtually the same. In the post-reform era, the ratio declined marginally up to 20 percentile also denoting marginal relative decline in household welfare in urban areas up to poorest quintile. Beyond that point, the urban to rural differences in household welfare had widened continuously as income level (APCE) rose denoting that at higher level of

**Figure 4: Urban to Rural Ratio of APCE**  
Ratio of urban to rural APCE



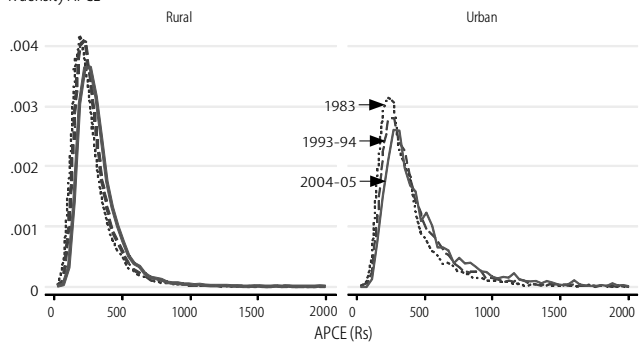
income the major chunk of the gain of post-reform era had gone to the household residing in the urban areas.

**2.2 Inequality by Employment Status**

The substantial rise in inequality, particularly observed in earlier section, demands a detailed analysis of the section of households/ earners that had been substantially affected by these inequalities.

**Inequality of Self-Employed Households:** The inequality of self-employed (Figure 5) showed a perceptible increase in post-reform era in urban areas as can be seen from smaller modal value as well as a bulge in upper section of expenditure distribution in the urban areas. But the decline in the modal value in the urban areas was relatively larger in the pre-reform era. The distribution was more stable in rural areas. In rural areas, in post-reform era, the distribution also showed a larger shift towards

**Figure 5: Distribution of APCE in Self-Employed Workers (in Rs)**  
K density APCE



the right and bigger decline in the modal value compared to the pre-reform era. It reflects relatively more equitable growth in rural areas compared to urban areas. One aspect that needs to be noted is that the household incomes of the self-employed represent mixed income. Getting further breakdown of income of the self-employed into primary, secondary and tertiary level by household, the main income source might not give us desirable results for some doubt might still exist about the portion of their total income being derived from different sectors.

**Inequality of Earnings of Wage Workers:** All measures of inequality showed a consistent rise over the last two decades (Table 7). It is different

**Table 7: Trends of Earnings Inequality of Wage Workers**

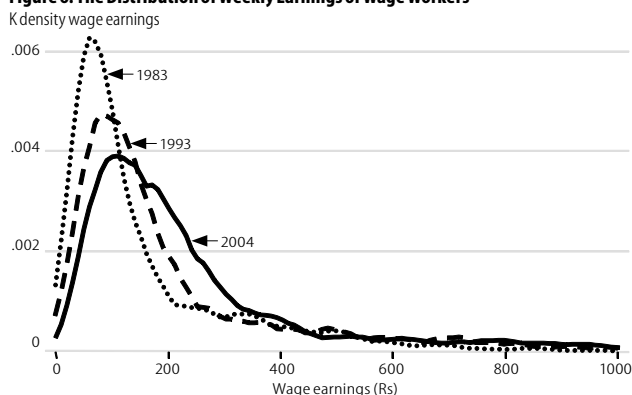
Period	Gini	GE(0)	GE(1)	GE(2)
1983	0.483	0.420	0.395	0.503
1993-94	0.506	0.477	0.458	0.687
2004-05	0.542	0.534	0.570	1.305

Source: Same as Table 1.

from inequality figures of all households that depicted a decline in inequality in pre-reform era. The inequality showed a sharper rise in post-reform period, particularly in the upper part of the earnings distribution as reflected by  $GE(2)$ .

We now look at the KDF distribution of earnings of workers to get a clearer picture (Figure 6). We have taken weekly earnings because the regular workers by definition get paid for the whole week, whereas casual workers are paid for the days they have actually worked.

**Figure 6: The Distribution of Weekly Earnings of Wage Workers**



First, the mode of earnings of wage workers is shifting to the right. It indicates a positive growth of earnings of all workers. Second, the right tail of the distribution is getting flattened out over the years and the height of mode is also declining, reflecting a higher growth of earnings of workers receiving higher wages. Third, in between 1993-94 and 2004 (post-reform era) the mode of distribution showed only a marginal shift to the right and the right tail had become substantially thicker indicating a higher rise in earnings at upper level. Wage workers include two disparate groups of wage earners – regular and casual. The earnings inequality measures of regular and casual workers separately will make things clearer.

The Table 8 presents the earning inequality (Gini) for both regular and casual workers separately. First, the inequality of casual workers had declined over the years. But the decline was substantial in the pre-reform period. Second, inequality of regular wage workers declined in rural areas in pre-reform period and then substantially rose. In urban areas the inequality

**Table 8: Inequality (Gini Coefficient) of Regular and Casual Wage Workers**

		1983	1993-94	2004-05
Regular	Rural	0.451	0.409	0.485
	Urban	0.374	0.384	0.477
	Total	0.419	0.400	0.484
Casual	Rural	0.318	0.276	0.274
	Urban	0.353	0.308	0.298
	Total	0.329	0.288	0.282

Source: Same as Table 1.

among these workers rose marginally in pre-reform period and considerably in post-reform period. Third, inequality among regular wage earners was consistently higher than the casual wage both in rural and urban areas in all years.

We now look at the KDF distribution of earnings of regular and casual workers separately for all three years (Figure 7) to get a comprehensive picture.

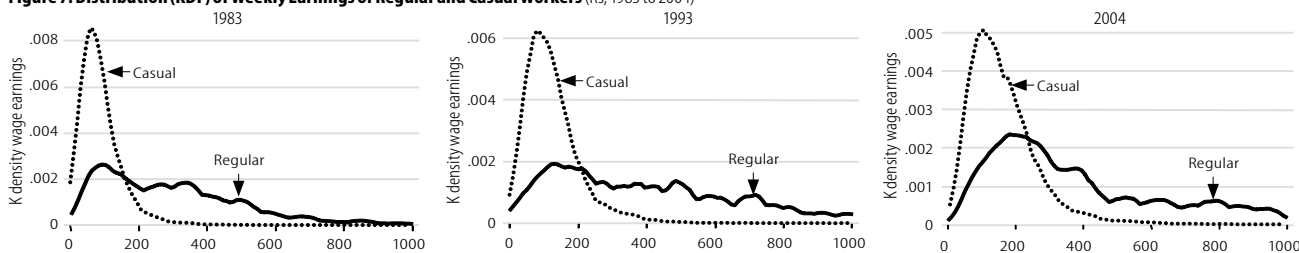
The earnings inequality between regular and casual workers gives an interesting plot (Figure 7). We have taken the weekly earnings for this comparison as casual workers do not necessarily work throughout the week. Few things can be discerned. The distribution of earnings of casual workers over the years was less unequal and inequality did not show any increase. Earnings of regular workers were substantially unequal. A major reason for the difference is that regular wage workers have much greater variation in human attributes, particularly in education. There is a big difference between manual and non-manual wage difference for regular workers, but not for the casual, reflecting dispersion by skill and education for the former category (Mazumdar and Sarkar 2008). Over the years, the mode of the distribution of regular wage earnings had shifted to right tail of the distribution of casual wage earners. It gives an indication of higher earning growth of regular wage earners relative to casual wage earners. Any further analysis of inequality of casual wage earners is unlikely to throw much light as there is no clear indication that the right tail is becoming longer than the left tail. In the following section we will confine ourselves to examining disparity within regular wage earners only.

### 2.3 Wage Inequality of Regular Workers

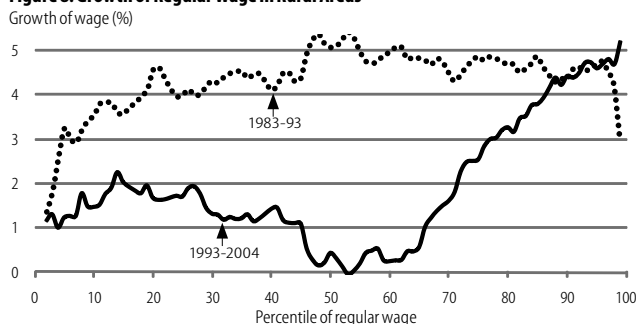
The growth of wage of regular workers paints a picture similar to the household welfare. The Figures 8 and 9 (p 51) present the compound annual growth of percentile wage for pre- and post-reform periods for rural and urban areas, respectively. The contrast between pre- and post-reform period is quite striking. In rural areas (shown in Figure 8), during pre-reform period the shape of the curve was mildly convex showing moderate increase in growth of wage up to 50 percentile and a small decline thereafter. In post-reform period, the growth of wage rate was moderately positive (1% growth) until 40th percentile and then fell flat up at low level up to 60th percentile and then rose continuously to reach more than 5% in topmost quintile.

In urban areas, in the pre-reform period, the slope of the curve was moderately upward sloping reflecting a small increase in wage inequality. But in the post-reform period, the picture is strikingly different. The growth wage rate was negative up to 50th percentile showing a decline in the absolute level of real

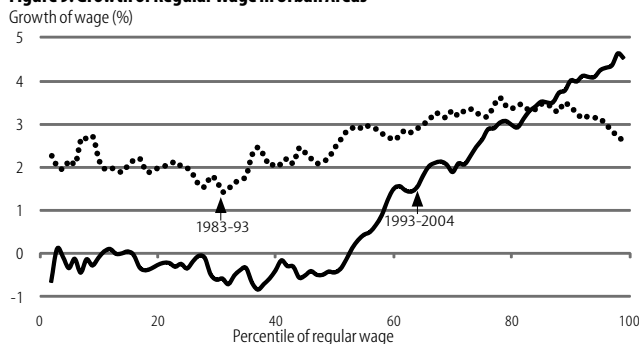
**Figure 7: Distribution (KDF) of Weekly Earnings of Regular and Casual Workers (Rs, 1983 to 2004)**



**Figure 8: Growth of Regular Wage in Rural Areas**



**Figure 9: Growth of Regular Wage in Urban Areas**



wage of workers belonging to this group. Beyond this point, the wage rate growth turned positive and it rose sharply to reach 5% level in highest quintile (topmost 20 percentile).

What factors are responsible for this sharp rise in disparity of wage in post-reform period?

The explanations put forward to account for this rising wage gap include institutional factors (such as changes in government policy), supply-side factors (such as demographic shifts and immigration rates) as well as demand-side factors such as skill-biased technological change and dismantling of a structure of trade protection that formerly favoured relatively unskilled-labour-intensive sectors (Dutta 2005 and Rani 2008).

Mazumdar and Sarkar (2008) mentioned that an important feature of the rising wage inequality in several developed countries has been the sharp rise of wages of skilled workers relative to the unskilled ones. This is largely referred as the differential wage premium to education by level of education. This should give rise to an increasing difference in the wage level between educational categories (Abraham 2007). The “between educational” level wage differential is presented in Table 9.

In the pre-reform period, mean wage differential across various educational levels either remained the same or declined. In the post-reform period, differentials rose marginally at secondary level but it increased substantially at graduate and above level from ratio of 1:3.6 in 1993-94 to 1:4.6 in 2004-05. It gives credence to the argument of the skilled demand bias of technological

**Table 9: Wage Differential at Mean between Groups for Regular Workers**

Level of Schooling	1983	1993-94	2004-05
Not literate	1.0	1.0	1.0
Up to primary	1.4	1.3	1.3
Up to middle	1.5	1.4	1.3
Up to secondary and higher secondary	2.3	2.1	2.3
Graduate and above	3.7	3.6	4.6
Total	2.0	2.0	2.4

Source: Same as Table 1.

change. To the extent, the employment of regular workers reflect the demand-side of labour market, the distribution of regular workers should shift to educated ones. Table 10 is the education distribution of regular workers in India.

**Table 10: Educational Distribution of Regular Workers (in %)**

Level of Schooling	1983	1993-94	2004-05
Not literate	24.6	15.9	11.9
Up to primary	9.9	8.7	7.0
Up to middle	13.4	10.8	11.6
Up to secondary and higher secondary	39.4	45.0	47.7
Graduate and above	12.8	19.6	21.9
Total	100.0	100.0	100.0

Source: Same as Table 1.

However, Table 10 showed that the major shift in the distribution of regular workers to secondary and graduates took place in the pre-reform period and not in the post-reform period. Share of these two categories of workers in regular wage earners rose from 42% to staggering 65%.

The alternative argument that is put forward is that the growth differences in various sectors of the economy would lead to widening intersectoral wage differential. In the period of opening up of the economy, the country-specific advantages induce countries to specialise in certain sectors of the economy. It would widen wage differential of these sectors relative to domestically oriented sectors and thus would lead to “within educational categories differential” (Abraham 2007). The within educational level wage differential (Table 11) showed a remarkable stability in the pre-reform period. In the post-reform period, from educational level secondary and above, the ratio of 50th to 25th percentile and 75th to 25th percentile showed a perceptible increase. The largest rise had occurred in the graduate and above education category. Sarkar and Mehta (2010) found that daily wage of graduate information and communication technology (ICT) regular workers went up by 4.75% per annum compared to 0.91% for non-ICT workers in the tertiary sector during the period 1999-2000 to 2004-05. Even in this period, one can discern either constancy or decline in within educational group wage differential for educational level up to middle level. The combined wage

**Table 11: Wage Differential within Education Group for Regular Wage Workers**

Schooling	Percentile	Wage Rate (Rs)			Wage Ratio of 50th and 75th to 25th Percentile		
		1983	1993-94	2004-05	1983	1993-94	2004-05
Not literate	25	12	15	17	1.0	1.0	1.0
	50	25	33	37	2.2	2.2	2.2
	75	31	43	44	2.7	2.9	2.6
Up to primary	25	17	21	22	1.0	1.0	1.0
	50	35	43	47	2.1	2.0	2.1
	75	47	60	56	2.8	2.8	2.5
Up to middle	25	20	23	26	1.0	1.0	1.0
	50	38	45	50	1.9	1.9	1.9
	75	49	62	58	2.5	2.6	2.2
Up to secondary and higher secondary	25	35	36	34	1.0	1.0	1.0
	50	58	69	84	1.7	1.9	2.5
	75	70	93	118	2.0	2.6	3.5
Graduate and above	25	58	73	75	1.0	1.0	1.0
	50	93	119	169	1.6	1.6	2.3
	75	112	150	224	1.9	2.0	3.0
Total	25	20	29	30	1.0	1.0	1.0
	50	50	68	91	2.5	2.4	3.0
	75	62	93	124	3.1	3.3	4.1

Source: Same as Table 1.

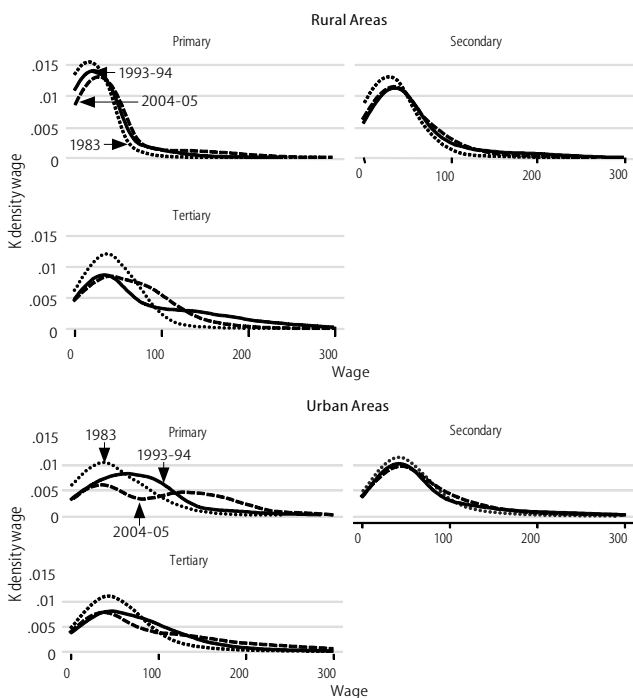
inequality effect of between and within educational categories for above secondary level is quite in tune with the substantial rise in wages of better paid regular wage earners that had already been observed in the post-reform period.

The findings of this section encourage us to analyse the inequality of regular wage workers at sectoral level.

### 2.4 Sectoral Wage Inequality of Regular Workers

The KDF graphs for regular wage earners for the three sectors separately for rural and urban areas are presented in Figure 10. In the pre-reform period, there was a shift to the right in the

**Figure 10: Distribution for Regular Wage Regions by Major Sector, Rural and Urban Areas**



earning distribution for both rural and urban areas, but it is clear that the shift is largest for the tertiary sector. In the urban areas, the shift seems to be larger for the primary relative to the secondary sector – presumably because of most of the regular wage earners are in government and public sectors. However, in the rural areas, the shift in secondary sector was larger than primary sector. In the post-reform period, some shift to the right was observed in the rural areas for both the primary and the secondary sectors. In the tertiary sector, in rural areas and in all sectors in urban areas no outward shift of the distribution was observed. The bulge in the earnings distribution graphs was larger in the upper end of the curve indicating a continuous rise in inequality in post-reform years. For the tertiary sector, in both areas, the mode seems to have shifted slightly to the left

**Table 12: Share of Regular UPS Worker in Total Employment (in %)**

Year	Rural			Urban		
	Male	Female	Total	Male	Female	Total
1983	10.6	3.7	8.5	44.5	31.8	42.3
1993-94	8.7	3.4	7.2	42.7	35.5	41.4
2004-05	9.1	4.8	7.8	40.8	42.2	41.1

UPS means usual principal status workers.  
Source: Same as Table 1.

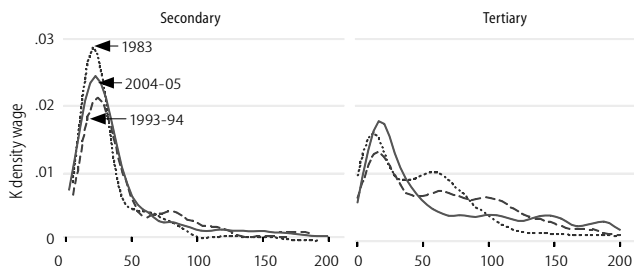
suggesting an absolute decline, however small, showing some enhancement of low earners among the regular wage earners. Is any push factor working here? This requires further probing. We look at the share of regular wage workers presented in Table 12.

The table revealed that the post-reform period experienced a significant increase in the proportion of regular female wage earners, particularly in the urban areas. Since a large proportion of these female workers are in tertiary sector jobs, and their levels of wage might be lower, the observed decline in modal earnings in the tertiary sector might indeed be a reflection of the change in the gender composition. In next section we examine this aspect in details.

### 2.5 Gender Dimension of Inequality

We look at the earning distribution of regular female wage earners to throw light on this problem (Figure 11). In the case of regular urban female workers, in the pre-reform period, there was a substantial decline in the size of the mode for both secondary and tertiary sectors. Further, in the tertiary sector the shift in the upper right portion was substantially higher indicating a substantial job creation at the upper level. In the post-reform period, one can discern a contrasting picture.

**Figure 11: Distribution of Regular Wage of Urban Female Workers**



There was an increase in the height of the mode without any shift towards the right in both secondary and tertiary sectors. In the tertiary sector, in particular, there was an inward movement of the earning distribution curve to the right of the mode. Although, some outward shift in the top end of the distribution can be discerned the graph clearly showed that in the post-reform period, the entry of regular urban female workers had largely taken place in lower end of the distribution. There was, however, no evidence of an actual decline in modal real wage for this group of workers.

Our evidence is thus consistent with the hypothesis that the observed decline in modal wage in the tertiary sector for both males and females together (Figure 10) was most likely due to the larger female participation in the category of regular wage earners, particularly in the urban areas closer to modal wage rate.

It can be seen from Table 13 (p 53) that a staggering proportion of 53% regular women workers were engaged in job with private households as maid servants, cook, etc, in the poorest quintile. The share of jobs with private households was also quite high in next higher quintile of poor households. It seems that increased regular employment of this category of workers raised the modal value of female tertiary wage employment at low level.



**Table 13: Share of Enterprise Type among Principal Regular Woman Workers (2004-05, in %)**

Consumption Expenditure Quintiles	Percentage Share of			
	Proprietary	Govt/Public Sector	Private Corporate Sector	With Private HHS
Poorest	24.8	6.5	10.4	52.7
Poor	32.3	11.5	6.1	43.7
Middle	29.2	19.5	10.0	27.2
Rich	27.9	32.4	8.0	15.2
Richest	12.4	48.0	13.2	9.3
All	22.8	30.5	10.2	21.5

Row total does not add up to 100. HHS - Households  
Source: Unit level data of 61st Round of NSS (2004-05).

## 2.6 Changes in Sectoral Employment Composition and Inequality

Table 14 presents the broad picture of industrial composition of the labour force for the two decades preceding and following the reform year of 1993-94. Since the number of subsidiary workers fluctuates depending on strictly temporary factors, we have looked at the change in industrial composition in terms of the principal workers only (based on the UPS of the NSSO).

**Table 14: Distribution of UPS Employment across Sectors over the Years (%)**

Sector	1983	1993-94	2004-05
1 Agriculture	64.9	61.1	54.6
2 Mining and quarrying	0.7	0.8	0.7
3 Manufacturing	11.3	11.0	12.1
4 Electricity, gas and water supply	0.4	0.5	0.3
5 Construction	2.7	3.7	6.4
6 Trade, hotels and restaurants	6.9	8.0	11.2
7 Transport, storage and communication	3.0	3.3	4.5
8 Financial, insurance, real estate and business services	0.7	1.1	1.8
9 Community, social and personal services	9.4	10.5	8.5
Tertiary sector (6-9)	20.0	23.0	25.9
Secondary (3-5)	14.4	15.1	18.8
Primary (1-2)	65.6	61.9	55.3

Source: Same as Table 1.

The first point to notice is that the acceleration in per capita GDP growth in the post-reform decade (Topolova 2008) had, indeed, been associated with a marked increase in the reallocation

**Table 15: Labour Productivity by Broad Sector (1983 to 2004-05)**

Sector	Labour Productivity of UPS Workers (in Rs)			Relative Labour Productivity (Agri = 100)		
	1983	1993-94	2004-05	1983	1993-94	2004-05
1 Agriculture	11,818	13,507	16,842	100	100	100
2 Mining and quarrying	64,948	82,308	141,881	550	609	842
3 Manufacturing	26,139	38,949	59,902	221	288	356
4 Electricity, gas and water supply	93,445	1,43,416	2,97,676	791	1,062	1,767
5 Construction	39,484	37,702	33,818	334	279	201
6 Trade, hotels and restaurants	34,905	42,293	60,809	295	313	361
7 Transport, storage and communication	39,219	52,200	70,115	332	386	416
8 Financial, insurance, real estate and business services	2,11,516	2,77,806	3,06,209	1,790	2,057	1,818
9 Community, social and personal services	24,091	30,316	62,436	204	224	371
Tertiary sector (6-9)	36,511	49,573	96,080	309	367	472

Source: Economic survey of several years and unit level data of various NSS rounds.

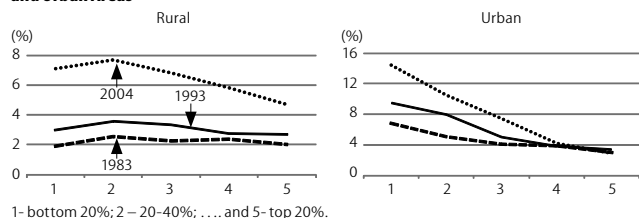
of labour outside agriculture. In terms of percentage points the decline in the share of labour in agriculture had, in fact, doubled in the post-reform decade.

A striking point about the accelerated reallocation of labour away from agriculture had been that manufacturing has played a minor role in absorbing the labour which had moved away from agriculture. This has been true both in the years before 1993-94 and the decade after it. It was the tertiary sector and construction which have provided the bulk of new opportunities for the growing labour force. In the pre-reform decade, the tertiary sector increased its share of the labour force by 3 percentage points and construction by 1 percentage point. In the post-reform years, the respective percentage points have been 2.9 and 2.7, while manufacturing managed to contribute a mere 1 percentage point. The enhanced role of construction – a feature of the post-reform growth process – needs to be commented on in the process of labour reallocation throughout the two decades.

We start our examination of the relative level of earnings in the tertiary sector by looking at the sectoral values of labour productivity by using the employment data obtained from the NSS along with the National Account estimates of GDP by sectors. The results for the different rounds are reported in Table 15. The average labour productivity of tertiary sector was high largely because of financial services segment. When examined at one digit level, the trade, etc, sector that absorbed substantial part of incremental employment, the productivity difference with manufacturing was less. But it was the construction sector that had started absorbing labour at a higher rate in the post-reform period, which showed a decline in the absolute labour productivity (Table 15).

The question is at what level of earnings this higher level of absorption of labour in the construction sector had taken place.

The construction sector that had been creating substantial employment in the post-reform period shows that relatively more jobs were being created in the lower quintiles in rural areas (Figure 12). This is very clear in the urban areas, where the slopes

**Figure 12: Employment Share of Construction Sector by APCE Quintile Groups in Rural and Urban Areas**

of the downward sloping lines were increasing over the years (in both decades) up to the 4th quintile (Figure 12). The increase in the slope of the line in the lower quintiles was decidedly more marked in the post-reform decade. It reflects considerable rise in inequality within construction sector itself even when its relative sectoral labour productivity had declined considerably. Virtually three-fourth and one-fourth of net new jobs that had been created in this sector were in casual and self-employed categories, respectively with regular worker category contributing virtually nothing.

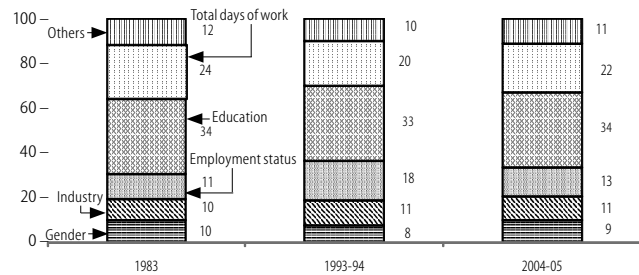
## 2.7 Decomposition Analysis of Earning Inequality of Wage Earners

In the earlier sections, we discussed in detail the earnings inequality among wage earners. We observed that differential in earnings is contributed by various factors like educational level, employment status, settlement (rural or urban), industry groups, gender, intensity of work, etc. We need to know contributions of each these characteristics to earning inequality. Fields (2003) developed a new approach that considers simultaneously the impact of several characteristic on earnings and allows to distinguish contribution of each of these characteristic. The approach is useful as it helps to factor in the contribution of various factors including categorical factors that enter as a string of dummy variables (Rani 2008).

We present (in Figure 13 and Appendix Table, p 55) decomposition of factors (excluding residuals) that contribute to earnings disparity of all wage earners. The two major factors that contributed to differences in earnings were educational level and intensity of work (total days of work). The regular workers get paid for all days in week whether they work or on leave but casual workers are paid only for the days they actually work. Apart from the daily wage rate, the earnings of the casual workers directly get affected by the number of days work and this factor had turned out to be the second most important factor contributing to earnings inequality. The level of education emerged as the most dominant factor contributing to the level of inequality in earnings of wage workers. The employment status (regular or casual) was the third most important factor. It showed that even after controlling days of work, daily wage differential between regular and casual was substantial. Interestingly, the relative importance of these factors in explaining part of contribution to earning inequality had not changed much over the last two decades.

The contribution of inter-industry disparity and gender differences in earning inequality were almost of equal importance. The education factor is the combined effect of all years of schooling. When we differentiated with years of schooling, we

Figure 13: Contribution to Earnings Inequality (%)



Field decomposition of earnings inequality of wage earners is given in Appendix Table.

observed that the contribution of workers with education level graduate and above in education component had gone up from 52% in 1983 to 72% in 1993-94 and further to 82% in 2004-05. It shows that even after controlling for several factors of location, sex, status of work, industry and age, the relative earnings of workers with graduate and above had registered a huge increase in the last two decades of growth. It was also observed that the relative education premium of workers only with secondary education had declined substantially in the pre-reform period.

### 3 Summary and Conclusion

A clear picture emerges from the analysis that the labour market generates a difference in wage and income based on residence (rural or urban), employment status, educational level, industrial groups and gender. The wage differential across different segments has increased in the post-reform period. The trends in wage rates clearly indicated rural-urban and casual-regular dualism. The wage gap between agriculture and non-agriculture for regular workers in rural areas had been narrowing. However, in urban areas, the wage gap between the secondary and tertiary (services) sectors was widening probably reflecting the service-oriented pattern of economic growth.

The overall income inequality (gini coefficient) demonstrated a continuous increase over the period with a sharp increase during the post-reform period. The rural and urban inequality had

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increased with rising inequalities in the upper income group (2). The KDF graph also revealed that there had been a substantial increase in income and inequalities in the upper half of the distribution. Further, the percentage distribution of APCE indicated that disparity in income rose sharply in the urban economy, at a higher level of income the major chunk of the gain had gone to the households residing in urban areas during post-reform period. Among the self-employed inequality had increased particularly in the upper section of the distribution in urban areas and post-reform period.

The workers' earnings, indicated that there was a substantial growth of earnings of workers receiving higher wages. Inequality in earnings among regular workers increased over the long period contrary to casual workers during the same period. The KDF graphs further indicated higher earning growth of regular wage earners relative to casual wage earners. A major reason for the difference is that regular wage workers have much greater variation in human attributes, particularly education. The growth of regular wage in the pre- and post-reform periods in rural areas depicted a mildly convex shape, showing a moderate increase in growth of wage up to 50 percentile and a small decline thereafter. In urban areas, during the post-reform period there was a negative growth up to 50 percentile and then a sharp increase up to the top percentile. This was explained as a sharp rise of wages of skilled workers relative to the unskilled ones.

Among the regular workers there was a shift to the right in the earning distribution for both rural and urban areas in the post-reform period, which was the largest for tertiary sector (services). The KDF graph further showed an influx of low earners among regular wage earners. During the post-reform period, there was a significant increase in the proportion of female wage earners, particularly in the urban areas. The quintile-wise data showed that a staggering proportion of 53% regular female workers were engaged in the job with private households as maid servants, cooks, etc, in the poorest quintile. The sectoral composition stated that the tertiary sector and construction had provided the

bulk of new opportunities for the growing labour force. The enhanced role of construction is a feature of the post-reform growth process. However, labour productivity in this sector had declined during the post-reform period and quintile-wise graphs of the construction sector showed that more jobs were being created in the lower quintiles. It reflected a considerable rise in the inequality with construction sector itself even when its relative sectoral labour productivity had a decline considerably.

However, the decomposition of factors revealed enormous differences in explaining the levels of earning inequality among wage earners. In urban and rural India, two major factors, intensity of work (total number of days) and educational levels were the most dominant factors contributing to inequality and the contribution of other factors like employment status, industry groups did not substantially affect inequality. The former two factors were also the most important factors for explaining the increase in inequality in the post-reform period. Within the education factor, the graduates and above sub-component was the highest contributor accounting for 82% contribution in 2004-05.

As a whole, the better-off sections of workers have gained at the cost of the more vulnerable sections. This requires urgent policy attention if the interests of the poor, less educated and semi-skilled workforce are to be safeguarded. In the era of economic reform, the labour market dualism had sharpened and there is a need to provide better options to workers in the rural and urban informal sector to acquire education and skills. The level of education, number of working days and employment status are to a large extent interrelated. There is enough evidence to show that a lack of opportunities of stable regular employment forced workers to take refuge in casual and self-employment work, which was earlier considered to be a transitory phenomenon, but is no longer so (Rani 2008). Therefore, the policy focus should be not only on improving educational levels, but also in creating more employment opportunities with quality and better paying stable jobs for the labour force.

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**Appendix Table: Fields' Decomposition of Earnings Inequality of Wage Earners (in %)**

Characteristics	Contribution to Earnings Inequality		
	1983	1993-94	2004-05
Age	2.3	2.4	4.1
Settlement	5.2	2.5	2.5
Gender	6.1	3.7	5.6
Industry	5.9	5.4	6.3
Employment status	6.9	8.6	7.6
Level of education	20.8	16.1	19.8
Total days worked	14.9	9.9	13.0
Residual	38.1	51.4	41.1
Total	100.0	100.0	100.0

Source: Unit level data of various NSS rounds.