

Liberalization and Wage Inequality in India

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Following Picketty (2014), income inequalities can be decomposed into inequalities from wealth-based income and those due labour earnings (wages). Economic liberalisation in India was expected to have resulted in greater labour-intensive production and demand for low-skilled labour, increasing the income of such labour relative to skilled labour. But contrary to this expectation, the wages/earnings of high skilled workers in India have risen much faster than that of low skilled workers, rapidly increasing wage inequality during the period of liberalisation. This impact has been concentrated in (organised) manufacturing and in urban wages. Overall wage inequalities are however a product of several factors - rapid economic growth which has raised the demand for workers in non-agricultural sectors; the nature of labour institutions (embedded in social institutions), rising skill and capital intensity, both in manufacturing and in services, capital accumulation processes, and state policies. These factors have affected urban and rural inequality differently, and have also impacted on social groups in different ways.

This paper is an attempt to explore the trends in wage inequality in India in the post liberalisation period. It is based on an analysis of quinquennial employment-unemployment surveys carried out by the National Sample Survey Organisation since 1993-94, and the Annual Survey of Industries data for organised manufacturing.

Keywords: *Income inequalities, Economic liberalization, Labor*