DIMENSIONS OF WAGE INEQUALITY IN INDIA

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Increasing inequality in the last decade or so has been pervasive for most of the emerging economies including India. In India, in the absence of income data, inequality is estimated based on the consumption data for households, collected by the Government of India (GOI) every five years through the National Sample Surveys (NSS). This data suggests increasing inequality of consumption, in both horizontal and vertical terms. The inequality in consumption, measured by the Gini coefficient (a statistical measure of inequality on a scale of 0 to 1, where 0 means no inequality), increased to 0.28 in 2011-12 from 0.26 in 2004-05 in rural areas and to 0.37 from 0.35 in urban areas. The consumption of the top 20 percent of households grew at almost 3 percent per year in the 2000s as compared to 2 percent in the 1990s, while it remained unchanged at 1 percent per year for the bottom 20 percent of households. In terms of horizontal inequality, which means inequality across regions, the overall ratio of urban to rural consumption went up from 1.62 to 1.96 over the same period. Such increase in consumption inequalities among the households in both rural and urban areas could be used as a proxy for increasing income inequality in India as discrepancies in consumption among the rural and urban as well as the top and bottom consumption classes of population do reflect improper redistribution of national income.

Increasing inequality in incomes gets corroborated by the movement of wages and its growth. According to UNCTAD in its recent report, growth of real wages in India between 2001 and 2005 was a mere 2.6 percent annually. In 2006 and 2007, real wages grew at abysmal rates of 0.4 percent and -0.6 percent respectively, far lower than the 6.5 percent GDP growth rate. The International Labour Organization (ILO)'s Global Wage Report, 2012-13, show real wages in India fell in 2008-11. Given such discrepancy in growth of real wages compared to GDP growth rates, it is evident that large sections of the population have not been able to reap the benefits of high growth. The government estimates itself reveal that the share of wages in national income fell from 40 per cent at the start of the 1990s to only 34 per cent by 2009-10, and much sharply in the organised sector, from 69 per cent to 51 per cent in the same period (Calculated from estimates provided by National Accounts Statistics, National Sample Survey Organisation and Annual Survey of Industries, GOI). Also while the unorganised sector continues to account for the overwhelming majority of workers in India, its share in national income fell from 64 per cent to 57 per cent signifying diminishing share of earnings to majority of workers. The figure below shows the declining share of wages to net value added compared to the share of profit in same within the organised factory sector, specifically after 2001-02.

The increased gaps in earnings are visible even among the wage earners. According to the Employment Unemployment Survey estimates for 2011-12, conducted by the NSSO, the top 10 percent of wage workers now receive almost 12 times more wages than the bottom 10 percent. This ratio was a mere 6 in the 1990s. The distribution of wages is also tilted towards the top 10 percent of the population, which earns almost 5 times more than the average wages, however this average wage is only 0.4 times higher than the wages of the bottom 10 percent. These figures do clearly indicate that those at the higher classes of consumption also earn disproportionately higher wages, compared to the bottom 10 percent of wage workers.

One of the major drivers of such wage disparities in India has been the wage gaps existing between rural and urban areas as well as between the regular workers (workers having a stable monthly income) and the contractual wage earners (piece rate, time rate workers, daily wage earners with no fixed monthly income also categorised as casual workers). There is also a substantial gender wage gap existing across rural and urban areas in India.

Wages for casual workers as percentage of regular wage workers increased from 37 percent in early 1990s to 40 percent in 2011-12. While the increase does mark a closing of wage gap for casual and regular workers by 3 percent, it still remains substantial. The discrepancy between regular and casual work is also evident across rural and urban areas. By the latest available data, the wages for casual work in urban areas is 1.2 times higher than casual work in rural areas and wages for regular jobs is around 1.7 times higher in urban areas, compared to rural areas.

In terms of male-female earning gaps in India, while it is a lot lesser in regular employment for women; female wages as percent of male wages are estimated at 74 percent in 2011-12, it has been around 82 percent in the 1990s. In casual employment for women the gender differentials are higher. In 2011-12, female wages for casual work constituted on an average only 65 percent of male wages which has not changed substantially over the last two decades.

However, the gender pay differences are also observed across rural urban areas. The male-female wage gaps are lesser in rural areas compared to urban areas. This does not necessarily mean that women workers are better off in rural areas in terms of their earnings. This is due to the fact that as more women are engaged in economic activities in rural areas, compared to urban areas, cheaper female labour can substitute male labour for a lower wage, thus bringing down the overall rural wages and also closing the male-female wage gap. Thus such closing of wage gaps does not necessarily mean improvement of existing situation.

Apart from reduced share of wages in national income, the above wage differences across regions, contract of employment and across gender play a major role in determining the extent of wage inequality in India. There also exist sectoral wage differences, primarily across the agricultural and non-agricultural occupations as well as between the private formal and informal enterprises. Given these gaps in wages across these several dimensions, it is evident that closing these gaps by increasing real wages would go a long way towards improving wage inequality in India. It would also lead to increasing the share of wages, which would then work towards reducing the overall inequality, both wage and consumption, by meting out a better redistribution of national income. However, it is also equally important to improve the rate of growth of wages, adjusted to inflation, over the next few years, in order to take care of these discrepancies.

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