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Wage differential between caste groups: Are younger and older cohorts different?

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ABSTRACT

Recent literature has provided evidence that a gender and caste-based wage discrimination can exert negative economic impact on a country's development process. Given the enormous contribution of a young population to India's workforce, we examine whether there is any caste-based discrimination considering 'demographic' distinction. Using employment and unemployment National Sample Survey data from India for two rounds during the last two decades (1993 and 2010), we find rising wage gap between privileged and marginalized groups within younger and older cohorts across the distribution and over time. Furthermore, we decompose the wage gap using the counterfactual decomposition into endowment effect (explained by differences in characteristics) and a discrimination effect (attributable to unequal returns to covariates). We find that the discrimination effect against marginalized castes (in both cohorts) decreases, implying an increasing endowment effect across the distribution of the wage gap. This discrimination effect is more pronounced among younger compared to older cohorts.

1. Introduction

Discrimination¹ - practised often endogenously in both developing and developed societies, is not known to beget any virtue either in the form of economic or social benefits. The economic study of discrimination has been motivated, first, by the growth of labour supply having implications on the underutilization of valuable resources (Klasen, 2002), and second, by the expected distortional incentives for investment for the next generation (Alderman and King, 1998). Both factors have growth-inhibiting effects and trigger a rise in inequality traps, where a disadvantaged group faces a long-run opportunity set worse

than that of another group, even though a better set would be possible (Bourguignon et al., 2007). Undoubtedly, discrimination, prevalent in the form of either caste, gender, or skin colour can lead to inefficient sub-optimal outcomes (Esteve-Volart, 2009); increases social inequality which in effect can also lead to social alienation in the society (Gupta et al., 2018).

In the context of a developing country such as India, the occurrence of discrimination is mostly observed on the basis of caste.² It is found, using both field and survey data, that it not only affects the current development path but also negatively impacts on the labour market (Kijima, 2006a; Thorat and Attewell, 2007; Azam, 2012). There has

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¹ Discrimination is defined as a systematic gap in rewards to key factors of production that can be attributed not to differences in relevant attributes but to easily identifiable group characteristics based on e.g., gender, skin colour or caste.

² In India, caste is broadly classified into four groups, namely Schedule Caste (SC), Scheduled Tribe (ST), Other Backward Classes (OBC) and High Caste (HC). The first three groups are classified as underprivileged/marginalized groups or low caste whereas the last group is classified as the privileged group or high caste. Historically, the Scheduled Caste are the untouchable group and have socially been placed outside of the society for centuries. The second group, Schedule Tribe, are a group whose distinction is made on the basis of language and cultural activities from rest of the Indian society. These two groups were often not allowed to participate in most of the economic decision-making process in India. The Other Backward Classes were classified as those who were not the part of the former two groups and neither were part of the upper caste. This group is also deprived, both socially and economically. These four groups represent approximately 20%, 8%, 42% and 30% of the population of India respectively.

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also been an enormous amount of media coverage that has noticed continuous practice of discrimination and violence against low castes in India. These findings suggest that the caste system in India has a strong impediment both in the labour market and social sphere that can create distortions in incentives for next generation. Its continuous practice can offset the gains from the demographic dividend that is the contribution of a specific population cohort, such as a young over old population. In this spirit, [Jaimovich and Siu \(2009\)](#) using the U.S data have established that different age composition of the labour force has a large and statistically significant volatility effect on the business cycle.

Taken together, this paper expands the literature on the caste-based wage gap by focusing on young and old demographics. A primary motivation of this choice is based on a number of important research on demography ([Bloom et al., 2003](#); [Lindh and Malmberg, 2007](#); [Crespo-Cuaresma and Mishra, 2011](#); [Parhi et al., 2013](#)) which have established that a (developing) country seeking to maintain a high growth momentum needs to endogenise fully the positive externalities of demographic dividend. [Aiyar and Mody \(2013\)](#) offered support to this broad proposition and demonstrated that a substantial portion of the growth experienced by India since the 1980s is attributable to the country's changing age composition. In view of these findings, when a country like India experiences rare dividend from age-composition, a continuous discriminatory practice among them is likely to create social tensions and contribute to social conflict in the society.

This paper aims to contribute to the existing literature in the three distinct ways. First, we investigate whether the continuous practice of caste-based discrimination in the Indian labour market, after the thirty years of the reform, has ameliorated the problem of discrimination in the case of different demographic groups such as young and old cohorts. To the best of the authors' knowledge no such study exists that indicating the heated debate of caste discrimination for these two demographics.

Second, the existing literature primarily concentrates on the average, with the exception of [Azam \(2012\)](#) who studied wage inequality for the entire distribution using the consumption expenditure data. However, the shortcoming of this recent literature is that it has only examined for urban area and neglected rural area in the analysis. We fill this gap by including the rural sample and examine caste based discrimination for the most recent period i.e., 2010–11. To better understand the discriminatory practice we look at the entire wage distribution between two groups; we examine using the counterfactual decomposition method proposed by [Machado and Mata \(2005\)](#) and ask what would happen if lower caste young or old cohorts are given same wage structure as the high caste.

Third, as a robustness exercise, we use matching procedure and re-estimate the result obtained from the counterfactual approach and correct for potential specification bias in unmatched samples with individuals of different characteristics. In this case, we use the decomposition only on the matched sample, enabling us to compare the matched results against the unmatched ones using the same counterfactual decomposition method. We use the employment and unemployment data from National Sample Survey (NSS) for two different survey periods. The first sample period is 1993–94, which provides information on to the presence of discrimination before or at the beginning of reform period. The second sample period is 2010–11, which is used to examine the effect of discriminatory practices after the thirty years of the reform.

Our findings can be summarized as follows. The observed differences between young marginalized groups and the privileged group have increased across the entire distribution from 1993–94 to 2010–11, and are more acute at the top of the wage distribution. A similar result holds for older cohorts. Furthermore, by correcting the selection

bias problem in each cohort, we find that higher discrimination effect, 70–82% among young and 64–67% among older workers, contributes to the total wage gap at the lower end of the wage distribution. Our finding suggests that the adopted reservation policy, which was placed after independence to protect the marginalized groups from discrimination practice has not had its expected impact on reducing wage discrimination against low castes, and in particular against low caste young cohorts.

The rest of this paper is as follows: in Section 2, we present related literature and contextualize the same for the Indian context. Section 3 describes our methodological approaches. In Section 4, we describe the data and present stylized observations. Section 5 provides the empirical findings including robustness exercise. Finally, Section 6 summarizes the main findings of the paper and discusses their implications for policy.

2. Related literature and context

In this section, we consider only those literature that is more relevant to Indian labour market and is based on caste discrimination. Following this we also explain why the study of wage-gap differential among young-old based on social identities (such as caste) is so important in the Indian context.

2.1. Literature survey

The literature on discrimination has a deep facilitator in labour economics. Country specific empirical studies have added various dimensions by identifying distinct social, economic and demographic characteristics. From policy point of view, the most important reason for persistence of discrimination is attributed to policy ineffectiveness. For instance, in the case of India, the effort made by federal and state government to minimise the impact of caste based discrimination has appeared to be insufficient because in recent times the problem of discrimination has moved from being a thoughtful social issue to becoming a nagging human rights issue ([Borooah et al., 2007](#)). Research has shown that its occurrence is more visible in rural compared to urban areas.

Caste discrimination in India is not new. This phenomenon has been seriously debated in many international forums. It is a cultural and social phenomenon that has been a part of the traditions of the Indian society for thousands of years, dividing people into castes in a hierarchical order based on their descent. Indeed, caste-based discrimination can influence all spheres of life and can violate many basic human rights including civil, political, social, economic and cultural rights. It is also a major obstacle to achieving development goals because affected populations are often excluded from the development process. Discrimination is practiced in many areas, such as housing, marriage, and general social interaction that are reinforced through the practice and threat of social exclusion, economic boycotts, and even physical violence.

Being based on deeply ingrained social structures, caste based discrimination is currently part of day-to-day life in India. The effort made in recent years to reduce the impact of caste-based discrimination by federal and state governments, such as legislation changes, seems to have been proven insufficient and has moved from social issue to becoming a human rights issue. Research has shown that occurrence of discriminatory practices, however, are more visible in rural compared to urban areas. For instance, [Kijima \(2006a\)](#) using NSS data for the periods 1983–1999, has reported that the disparities of living standards among SC/ST (marginalized groups) compared to non-SC/ST (privileged group) still remain very high.

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