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Distribution of human capital and income: An empirical study on Indian States

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Abstract

Recently, an emphasis has been put on education as a key determinant for economic development. But when increasing the mean level of education of their population, developing countries face a trade-off : should they focus on increasing the level of already educated children or try to put more children into school and diminish illiteracy rates? In other words, should countries favor a more unequal or a more equal distribution of human capital? This paper empirically explores this question by analyzing the relation between distribution of education and income per capita with panel data from 29 Indian States. Using two different measures of the distribution of education and dealing with the high correlation between the mean education level and its distribution, this paper provides evidence that there is a negative relation between equality of education and income per capita. This result is robust to the use of the system GMM estimator. However, the relation is non-linear and depends on the level of development. This paper also gives a first insight into the channels which are at stake and shows that several mechanisms explain the impact of the distribution of education.

Keywords: Incquality, Human capital, Gini, India

JEL Classification Numbers : I25, O11

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