

DISCRIMINATION IN INCOMES IN INDIA: A REFLECTION USING DECOMPOSITION ANALYSIS

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Abstract: Gender and Racial discrimination are key issues of the Indian situation. The crux of the article is to see to even though laws to mandate equal and fair treatment. Yet we find evidence of discrimination at work. It can be due to both “sticky floor” and glass ceiling. There is evidence of discrimination across gender and racial classes. In order to see that discriminated groups achieve justice, social policy decisions are needed. Economic empowerment and equal opportunities are two policy decisions required in this scenario.

Keywords: Discriminate, Decomposition, Wage gap, Gender

INTRODUCTION

Gender and racial discrimination are relevant factors in the Indian labour scenario. This is even so there are laws to mandate equal and fair treatment and the fact that it considers education to be a fundamental right.

The gender and socio racial wage gap is there to be seen not just for its persistence but also for its variation spatially. This is still despite laws mandating equal treatment for all at workplace. This gap in income and earnings are accountable for much of the differences that are present in wealth, income and other features of the indices affecting life. This will lead to perpetuate and aggravate inequalities through their influence on creation of human capital. Therefore it is crucial to carefully observe them.

Definition of discrimination

Implications based on discrimination theory proposed by Becker (1971), there were assessable implications based on a competitive labour market and it is primarily discussed with the neo classical theory of discrimination. The author mentioned, the motivation behind discrimination arises on a ‘non pecuniary’ variable – “basis for discrimination”.

Arrow(1972), placed supportive arguments and said discrimination occurs due to uncertain or absence of information about job applicants.

Akerlof (1976, 1980) discussed social structure of discrimination and further developed microeconomic foundation behind it.

Market exclusion is a scenario in which employment opportunities are unfair and equal wage is denied to a set of people who are discriminated workers. Discrimination results in income losses to those group whereas pre market discrimination results in creating an imbalance in education and skill enhancement. further perpetuating low levels of human development and chances of employment, This results in, further worsening of human development index

There are two types of Economic Models of discrimination (T.Aggarwal 2014). The first one is where persons act independently, and second one the collective one..

Most common is the first one, where as mentioned earlier, we can have both kinds, ‘taste based’ and ‘statistical’ discrimination. In the first case it is thought employers a particular category is less ‘productive’ and the employer is not keen to employ them unless this group decides to benefit employer by accepting a lesser income for identical efficiency. Statistical Discriminatory models were discussed by Arrow (1972). These models believe no different treatment by the employer. Firms believe the gender/ racial class are less productive on the basis of prior knowledge and use gender, racial bias class as a screening device and pay lower incomes.

METHODOLOGY USED

The current study made use of the ‘Blinder – Oaxaca’ decomposition (Blinder 73, Oaxaca 73) in order to quantify the deprived class. This decomposition is a statistical method which details about the means of the dependent variable between the two groups gap decomposition. In other words, the differences present in the mean variables of the

independent variable of the within the groups and in effect the independent variable. This is authored by the economists, Alan Blinder and Ronald Oaxaca, who discussed about discrimination faced due to race and gender. This technique has provided a practical way to apply Becker's (1971) description of discrimination as unequal and unfair treatment among equivalent people due to race or gender. This technique segregates the income differentials under two categories, that is productivity part and residual part. The former has basis of experience, family background, education and other features and the latter part that could not be encompassed for differences in income. This latter one normally used part is often used as a determinant for discrimination. The gap in income between two categories is segregated in two parts as given herewith.

1. A part which can be detailed about differences in productivity characteristics otherwise known as "endowments" differences.

2. Remainder is "discrimination gap"

The data used is of 600 students of higher education of University of Delhi.

FORMULA USED

After segregating data into two groups of people A and B, the researcher finalized an outcome variable Y (LOG wages) and considered a set of human capital variable as predictors. The following equation used.

$$G = E(Y_a) - E(Y_b)$$

Here E (Y) represents the outcome variable's predicted value and, is considered for by group differences of the predictors.

The decomposition technique used in the present study is called a 'threefold' decomposition, that is the outcome difference is divided into three components,

$$G = e + c + i$$

defined as :

e – the differential that occurs because of endowment effect

c – determines the significance of coefficient differences

i – denotes an interaction term in the context of account which infer that there exists differences in coefficients and endowments simultaneously between the two groups.

So the last two capture discrimination.

RESULTS OF THE STUDY

As observed earlier, 'Oaxaca' model initially analyses the regression models for specific groups and then executes the decomposition process. The current study incorporated the three – fold decomposition as discussed earlier.

Decomposition by Gender

As shown in the table, for men, the mean of log hourly earnings (wages) is 1.74 for men, whereas for women the value was 1.6. Thus the difference was .135. This meant the women were paid less 13.5% than men. In this model the dependent variable was of hourly incomes whereas independent variables were experience and subject streams researcher decomposed the data by gender. The wage gap decomposition is categorized into three sections. The foremost one denotes that the mean of women's wages if they possessed the same characteristics alike their counterparts. With increase of .075, endowment differences for women contributed only a meagre value in overcoming wage gap. The second term calculates the volume of change among earnings by women at the time applying the coefficients of men upon women's characteristics. The third section is the interaction term that calculates the parallel effect of both the second and third term. Basically according to literature both the second and third term measure the discrimination portion of the wage gap, indicating women earn 6% difference in wages due to this.

Decomposition by Social Groups

In the research done, the we now again use the same dependent and independent variables but here the decomposition is carried out based on social classes, general category and reserved category. According to the results, the 'general' category showed a mean of hourly earnings as 1.75, the reserved classes showed the same as 1.57, giving a gap of .187, implying the difference of wage is about 18.7%.

Moreover according to breakup we can see the wage gap as by endowments is .087, and due to discrimination it is

.10, a little more than half, indicating a strong notion of discrimination against the reserved classes. The study clearly shows the presence of social inequality which leads in exclusion. This is present even when we have reservation.

Table 1 : Blinder – Oaxaca Decomposition for Gender (Number of obs = 600)

Loghour 1year	Coef.	Std. Err.	z	P> z	[95% Conf.	Interval]
Differential						
Prediction_1	1.744152	.50345	34.64	0.000	1.645478	1.842827
Prediction_2	1.608898	.06154	26.14	0.000	1.488282	1.729514
Difference	.1352544	.0795097	1.70	0.089	-.0205818	.2910906
Decomposit~n						
Endowments	.0593077	.0257619	2.30	0.021	.0088153	.1098001
Coefficients	.1056684	.785458	1.35	0.179	-.0482785	.2596153
Interaction	-.0297217	.0202439	-1.47	0.142	-.069399	.0099556

Table 2 : Blinder-Oaxaca Decomposition for Social Groups (Number of obs = 600)

Loghour 1year	Coef.	Std. Err.	z	P> z	[95% Conf.	Interval]
Differential						
Prediction_1	1.759024	.0482361	36.47	0.000	1.664482	1.853565
Prediction_2	1.571187	.0662059	23.73	0.000	1.441426	1.700949
Difference	.1878361	.0819143	2.29	0.022	.0272871	.3483851
Decomposit~n						
Endowments	.087056	.0356583	2.44	0.015	.0171669	.156945
Coefficients	.1654313	.082068	2.02	0.044	.0045888	.0068818
Interaction	-.0646512	.0355301	-1.82	0.069	-.134889	.0049865

SUMMARY AND POLICY IMPLICATION

With the expansion of formal sector and the participation of countries in the global arena expanding there is increase in higher education. Though it was a dream once now it has become an undeniable entity. There is a dominant role played by regulations and laws in opening gates for all in the formal sector But there is evidence of ‘discrimination’ across gender and racial classes. Discrimination can due to both ‘sticky floor’ and ‘glass ceiling’ effect across gender. Partially it can be due to relatively less labour participation of women as they have the duties of household, therefore men are considered more stable at work.

Also instances of women dropping out of workplace is a high probability, but as they move up the social ladder, employers become more confident of their work and discrimination declines. Many also argue about premarket discrimination, differences in qualification and credentials may be there as women are discouraged against higher education. Many laws have been passed but we are still far from gender equality.

Another kind of concern is income inequalities linked with caste system. Discrimination is linked with racial, social background factors, unequal access to formal knowledge. Among social groups which exhibit large number of endowment differentials there exist premarket discriminatory practices. This results in economic loss to the entire group, denial of opportunities and fair and equal wages.

In such a scenario in order to see that discriminated groups achieve justice social policy interventions are needed. According to Newman and Thoarat(2007) economic empowerment and equal opportunity are the two policy decisions required in this scenario.

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