



International Journal of Financial Management and Economics

P-ISSN: 2617-9210
E-ISSN: 2617-9229
IJFME 2020; 3(2): 50-55
Received: 05-07-2019
Accepted: 16-08-2019

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Inter-regional inequality linked with financial inclusion in India

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Abstract

The average, common person in India has a substantial disadvantage in wealth relative to people from other groups as analysed from years. Among the different groups, the FC Hindus are the clear leaders in median wealth in both the rural and urban areas. For the second survey year (2002–03), the OBCs and non-Hindus occupied positions that placed them noticeably above the SC/ST groups, but significantly below the FC in terms of median wealth values. In a worrisome trend, the relative median wealth of the rural and urban ST is, in fact, lower in 2002 than in 1991. A similar picture of SC/ST disadvantage and forward caste advantage is evident throughout the distributions in terms of gaps in percentile cutoffs. Estimates of the matrix of ranks for caste groups also confirm the existence of sizeable wealth gaps between the forward castes and everyone else.

Keywords: caste; inequality; distribution of wealth

Introduction

It is widely acknowledged among social scientists that caste is a persistent determinant of power, economic inequality, and poverty in contemporary India. Yet, economics literature on caste relations in India is at best sparse, even as noneconomists (mainly anthropologists and sociologists) have continued to make substantial contributions to the overall literature on caste (e.g., Beteille [2007], Gupta [2000], and Srinivas [2000])^[2, 10]. This gap has been acknowledged recently and a call for greater attention to this axis of differentiation has been made (Deshpande 2000)^[5]. This, among other reasons, such as better data availability, has given rise to an accelerated production of quantitative studies on caste in the last few years (e.g., Barooah [2005]^[1], Deshpande [2001], Kojima [2006]^[13], Munshi and Rosenzweig [2006], and Sundaram [2006]). The quantitative studies on caste can be divided into two broad categories. First, there are studies that have used either large surveys (mainly National Sample Survey [NSS] consumption and National Family Health Surveys [NFHS]) or fieldwork-based small sample surveys to show the evidence of caste differentials in consumption, income, education, occupations, and development indices (e.g., see Deshpande [2001], Hasan and Mehta [2006]^[11], Mehrotra [2006], Mohanty [2006], Srinivasan and Mohanty [2004], and Sundaram [2006]). The near consensus in these studies is that the less privileged caste groups tend to be worse off than the others on the measured indicators across the country, although there are regional differences. Second, using large survey data, other studies have employed the Blinder-Oaxaca decomposition (or modifications of this) to separate the structural differences (e.g., geographical, discrimination-based) among households from the differences in endowments (physical and human) in the market place (e.g., see Barooah [2005]^[1] and Kojima [2006])^[13] that create caste disparities. Barooah (2005)^[1], for instance, using the National Council for Applied Economic Research (NCAER) survey showed that about a third of the income differentials in India could be attributed to discrimination in the market place. Using the NSS consumption surveys, Kojima showed that both lower endowments of physical and human capital possessed by disadvantaged groups, as well as different structures of income generation, contribute equally to the disparities among caste groups. What is remarkable across these studies is the persistence of systematic disparities among households across different caste groups over long periods of time. Our paper contributes to this literature by analyzing the relationship between overall wealth inequality and caste divisions in India. There have been no studies on the wealth disparities (as opposed to consumption or income disparities) within and

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among caste groups on indicators and how these disparities contribute to the overall inequality in India. Wealth inequality is an integral aspect of economic inequality among persons at a given point in time, as well as across generations. Disparities in wealth can also translate into disparities in economic security. For a substantial portion of the Indian population that is dependent on agriculture, land is the major source of livelihood. Inequalities in the quantity and fertility of land owned are a significant determinant of economic inequality among households. Quality and quantity of schooling accessible to the children in urban and semiurban areas can vary positively with household wealth. The relationship between overall wealth inequality and caste is analyzed in this study using the Yitzhaki decomposition or ANOGI2 (Yitzhaki 1994; Frick *et al.* 2004) ^[9]. This allows us to separate the overall inequality into within-group and intragroup components, rather than obtaining conditional average effects of social divisions via regression-based decomposition methods such as the Oaxaca-Blinder method. Furthermore, the overlapping parameters estimated using our chosen method permits the distinction between caste-stratification and caste-inequality. This is especially important in the context of ongoing debates in Indian political economy about the questions of affirmative action and the so-called “creamy layer.”³ The remainder of the paper is organized as follows. Section II describes the data and problems; we also outline the definitions of the caste groups. Section III describes the patterns of wealth disparities among caste groups. The subsequent section (IV) presents the decomposition results. Section V concludes.

Data and Definitions

The data used in this paper are from the two rounds of the All India Debt and Investment Survey (AIDIS) conducted in 1991–92 and 2002–03. Wealth is computed as the total household assets net of the indebtedness. Household assets are defined as “physical assets like land, buildings, livestock, agricultural machinery and implements, non-farm business equipment, all transport equipment, durable household goods, and financial assets like dues receivable on loans advanced in cash or in kind, shares in companies, and cooperative societies, banks, etc., national saving certificates and the like, deposits in companies, banks, post offices, and with individuals” (NSS 2005: 5). Debt is defined as cash loans payable. In the absence of a better deflator, the Consumer Price Index for agricultural workers is used to make the 1991 and 2002 rural wealth values comparable across time. Similarly, the Consumer Price Index for industrial workers is used to make urban wealth values comparable across time.

The unit of analysis for the whole paper is the household adjusted for its size.

That is, the household weight is multiplied by the household size to obtain a distribution among persons. We use per capita wealth—household wealth divided by household size—as the measure of wealth. The implicit equivalence scale assumed here is that there are no “economies of scale” associated with wealth. (For the relative advantages and

disadvantages of using this method for Indian wealth data, see Jayadev, Motiram, and Vakulabharanam [2007].) ^[12]

We further separate the rural areas from the urban, as we believe that the wealth accumulation and income generation dynamics vary significantly across this sectoral division.

The problems associated with the wealth data in the surveys are identified in the literature (see, for example, Subramaniam and Jayaraj [2006] and Jayadev, Motiram, and Vakulabharanam [2007]) ^[12]. They deserve a brief recapitulation. There are basically four kinds of problems with these data. First, wealth distributions tend to be concentrated at the very top end. Unless a special effort is made to oversample the very wealthy, the concentration of wealth tends to be underrepresented. This will artificially reduce the overall inequality. Second, there is a tendency among people of all wealth groups to underreport their wealth holdings. This tendency to underreport is exacerbated as wealth holdings rise. This will widen the gap between those with close to no wealth and those that have some wealth. Third, the reported assets may not be correctly valued. It has been found in India that the reported values of even recent transactions tend to be lower than the market values. Given the lack of proper wealth-based deflators, the wealth values that are analyzed can be somewhat off the mark. Fourth, there is a tendency to hide illegitimate wealth that will lead to undercounting of the assets owned by the wealthy.

Finally, there is a strong tendency to underreport liability or debt. These problems add up to a state wherein populations belonging to the wealthier groups (more prevalent among the non-SC/ST population) appear to hold lower wealth than they actually have and the less wealthy groups (especially the SC/ST groups) report higher wealth than they have.

This will certainly reduce the overall inequality, but it will also reduce the between-caste inequality figures. These problems might be reflected in our findings.

Disparities in Wealth

Most studies of economic inequality in India have used consumption expenditure as the indicator of economic status. Our choice of wealth as the indicator of economic status would be superfluous if consumption expenditure and wealth are distributed similarly across individuals. While the two are correlated, the ranks of individuals in the two distributions can be quite different (table 1). If all individuals in a given quintile of one distribution also belong to the same quintile of the other distribution, then every number on the principal diagonal of the matrix shown in table 1 will be equal to twenty and every off-diagonal number will be equal to zero. Inspection of the table shows that the largest number occurs at the intersection of the top quintiles of the two distributions. This number indicates that only about half ($10.4/20 = 52$ percent) of those in the top quintile of wealth distribution were also in the top quintile of consumption expenditure. In other quintiles, at least two-thirds of individuals in a given quintile of wealth distribution were located in a different consumption quintile, with the third quintile showing the weakest correlation in rankings.

Table 1: Joint Distribution of Wealth and Consumption, 2002

Wealth	Consumption				
	1991				
	q1	q2	q3	q4	q5
q1	7.2	4.8	3.4	2.4	2.2
q2	5.5	5.2	4.2	3.0	1.9
q3	3.8	4.7	4.7	4.0	2.8
q4	2.6	3.6	4.7	5.1	4.0
q5	0.9	1.7	3.0	5.4	9.1
Total	20.0	20.0	20.0	20.0	20.0
	2002				
q1	7.3	4.8	3.7	2.4	1.4
q2	5.8	5.1	4.2	3.0	1.5
q3	3.9	4.6	4.7	4.2	2.5
q4	2.3	3.7	4.6	5.3	4.2
q5	0.7	1.8	2.8	5.1	10.4
Total	20.0	20.0	20.0	20.0	20.0

Note: Consumption is measured as per capita consumption expenditures (MPCE), i.e., total household consumption expenditures divided by the number of persons in the household.

Let us now turn to examine disparities in wealth and wealth distributions among caste groups. Since comparisons between the two years are possible only with the sixgroup schema (ST, SC, and OC), differentiated by their rural versus urban location, we begin with a consideration of the estimates shown in the upper panel of table 2. Between 1991 and 2002, the relatively disadvantaged groups (SC and ST) experienced rates of growth in mean per capita wealth that are better than the majority group in both the urban and rural

areas. However, the medians tell a different story, especially for the ST. The wealth of the average person in that group rose only 7 percent in the urban areas (as compared to 42 percent for the urban OC) and 21 percent in the rural areas (versus 25 percent increase for the rural OC). In contrast, the average SC person experienced a robust increase in wealth of approximately 40 percent over the same period in both the urban and rural areas.

Table 2: Wealth Groups (in thousands of 2006 rupees)

A. Scheme I								
	1991			2002			Percent change	
	Mean	Median	Share in Population	Mean	Median	Share in Population	Mean	Median
Urban ST	38.5	19.5	0.7	67.1	20.8	0.7	74%	6%
Urban SC	31.1	16.1	3.1	46.0	22.6	3.8	48%	40%
Urban OC	88.4	33.1	20.6	123.4	47.1	20.9	40%	42%
Rural ST	24.6	15.8	8.0	34.1	19.0	7.3	39%	21%
Rural SC	23.3	13.0	15.3	30.9	18.0	15.9	33%	39%
Rural OC	58.8	31.1	52.2	77.6	38.9	51.4	32%	25%
All	55.7	24.9	100.0	75.3	32.0	100.0	35%	28%
B. Scheme II (2002 only)								
	Mean	Median	Share in Population					
Urban ST	67.1	20.8	0.7					
Urban SC	46.0	22.6	3.8					
Urban OC	123.4	47.1	20.9					
OBC	85.5	34.8	9.0					
Hindu Others (FC)	169.3	77.7	8.4					
Non-Hindu Others	109.5	34.5	3.4					
Rural ST	34.1	19.0	7.3					
Rural SC	30.9	18.0	15.9					
Rural OC	77.6	38.9	51.4					
OBC	62.0	34.2	31.3					
Hindu Others (FC)	105.4	60.1	14.1					
Non-Hindu Others	93.9	25.9	6.0					

In spite of the increases that did occur between the two years, the average SC/ST person still had a considerable wealth disadvantage in 2002 (see figure 1). Compared to the most numerous group, rural OC, the median wealth levels of rural ST and SC were, respectively, only 49 and 46 percent; the relative positions of the urban ST and SC were somewhat better at 53 and 58 percent. In contrast, the urban OC had a median wealth that was 21 percent higher than

his/her rural counterpart. Comparison to the 1991 median values show that the relative positions of the rural and urban SC were, in fact, higher than in 2002, while the relative positions of the rural and urban ST were somewhat lower. The urban OC group also experienced strong growth in their relative position. If we were to compare the relative positions using mean, rather than median, values then we would also obtain a similar picture of disadvantage for the

SC/ST groups, with the exception of the urban ST whose mean wealth is 86 percent of the mean wealth of the rural

OC (as compared to only 58 percent in terms of median wealth).

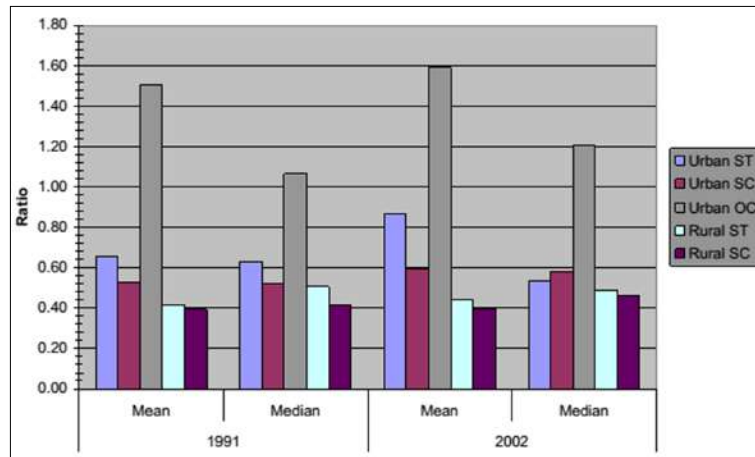


Fig 1: Disparity in Wealth by Caste, 1991 and 2002 (Ratio to Mean or Median Values of Rural OC)

As noted earlier, we are forced to treat the OC as a single category for comparing the two years because the 1991–92 data does not allow for further breakdown of this group along caste/religion lines. However, such a breakdown is possible in 2002–03 and the structure of disparities among caste groups can be better seen in terms of what was referred to earlier as Scheme II (panel B of table 1 and figure 2). Irrespective of their urban or rural location, the average OBC person has an amount of wealth that was a little less than 90 percent of the average rural OC person.

The average person in the group labeled “Non-Hindu Others” and living in an urban area has as much wealth as the average OBC; those in the rural areas have significantly less, though more than that of the average SC or ST person. The most advantaged subgroup in the OC group is the Hindu forward castes (FC); the median wealth in the urban segment of this group is twice as much as rural OC, while its rural segment has a median that was 54 percent higher than rural OC.

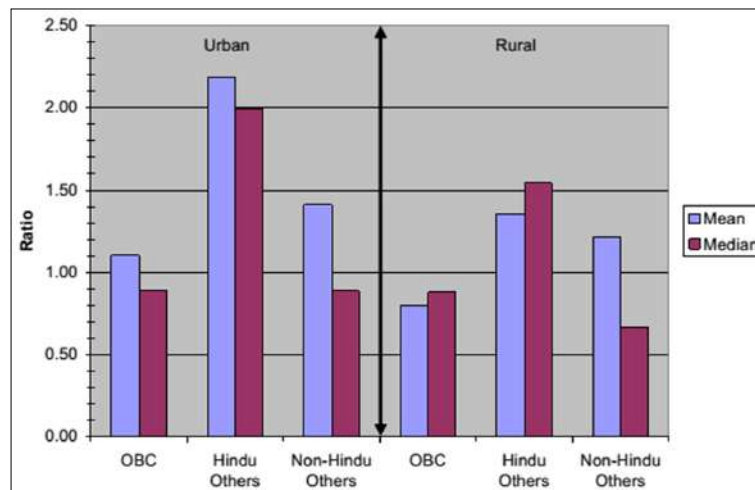


Fig 2: Disparity in Wealth among OC Groups, 2002 (Ratio to Mean or Median Values of Rural OC)

The ranking of the ten groups (in Scheme II) in terms of median wealth follows a pattern that one might expect a priori: the Hindu forward castes are at the top (urban, followed by rural). Immediately below them are the OBC groups and urban non-Hindu others who have quite similar levels of median wealth. At the bottom, we have the most disadvantaged (urban, followed by rural). The rural non-Hindu others occupy a place immediately above the most disadvantaged and below everyone else. If we were to use the mean values to rank the groups, the pattern shifts somewhat (figure 2). The top group—urban, Hindu FC—still maintain their lead and the rural SCs and STs held their status as the worst-off. Rural Hindu FC slip to the third place, with the second place taken by the urban, non-Hindu

others. Rural non-Hindu others occupy the fourth place, followed by the urban OBC, urban ST, rural OBC, and then urban SC. The reranking of the groups is an indication of the extent to which within-group inequalities differ, a subject to which we return below. Comparison of within-group distributions reveals that caste divisions and the urban-rural divide act as distinct, yet interrelated, influences on the overall wealth distribution (see table 3). The differences between the distributions of the individual groups are plotted on the vertical axis in figure 3 as $(p_{ij} i - p)$, which expresses the deviation between the percentile cutoff of the j th group (p_{ij}) from the overall percentile cutoff (p) at the i th percentile. Strikingly, only the Hindu FC stay in the positive territory throughout the distribution,

while the SC and ST groups stay in the negative territory throughout the distribution. The cutoff values for the former became increasingly higher than the overall values (most markedly for the urban, forward caste Hindus), while for the latter they became increasingly lower as we move to higher echelons of the wealth distribution. The other two groups, OBC and non-Hindu other, display more complex patterns. Lower portions of the urban OBC and non-Hindu other distributions have cutoff values that are below the cutoff

values for the overall distribution, but the higher portions have values that are higher, especially for the non-Hindu others. The rural segments of these communities diverge from one another markedly. While the bottom 60 percent of rural OBC enjoy higher than overall cutoff values, the top 40 percent in their distribution have cutoff values that are increasingly lower. The opposite pattern can be observed for the rural non-Hindu others.

Table 3: Percentile Cutoffs for Scheme II, 2002 (in thousands of 2006 Rs.)

Percentile	Urban ST	Urban SC	Urban OBC	Urban FC	Urban NH	Rural ST	Rural SC	Rural OBC	Rural FC	Rural NH	All
5	0.8	0.7	1.1	2.5	1.0	2.7	2.1	3.4	6.1	2.4	2.4
10	1.8	2.0	3.1	6.0	2.1	4.8	4.0	6.6	12.0	4.5	5.1
15	3.3	3.7	5.8	11.0	4.7	6.3	5.5	9.5	18.1	5.9	7.6
20	5.2	5.6	8.8	17.3	8.3	7.7	7.0	12.3	22.8	7.3	10.2
25	7.0	7.9	12.3	24.5	11.2	9.3	8.6	15.2	27.7	9.5	12.9
30	9.8	10.6	16.1	33.1	14.5	11.0	10.1	18.3	33.0	11.8	16.0
35	12.0	13.4	20.1	42.2	18.0	12.6	11.9	21.6	39.2	14.8	19.3
40	14.7	16.3	24.2	52.8	22.8	14.7	13.6	25.6	45.5	17.9	23.0
45	18.2	19.4	29.0	64.6	27.9	16.6	15.8	29.7	52.5	21.4	27.3
50	20.8	22.6	34.8	77.7	34.5	19.0	18.0	34.2	60.1	25.9	32.0
55	23.6	27.2	41.4	93.1	42.0	21.6	20.3	39.1	68.9	31.0	37.6
60	28.9	31.0	49.0	111.7	52.1	24.7	23.3	45.0	78.9	38.1	44.4
65	38.0	35.1	58.4	131.7	65.3	28.5	26.6	51.3	89.9	46.8	52.3
70	49.0	41.1	70.5	155.5	84.5	32.0	31.0	60.1	104.2	59.0	62.8
75	61.4	50.4	83.9	191.8	107.7	37.3	36.2	70.8	122.4	76.7	76.3
80	77.3	63.6	106.9	235.0	139.1	43.8	43.2	83.9	145.3	104.1	94.5
85	102.9	81.8	143.2	290.9	189.9	52.8	52.2	102.8	181.2	145.1	122.2
90	144.9	109.8	192.3	379.3	273.9	71.6	66.5	136.1	230.5	220.8	170.1
95	220.6	168.8	313.1	562.9	429.0	110.4	98.3	205.9	331.0	402.3	272.3

The direction and amount of the urban-rural disparity within caste groups varies across the distribution. This can be illustrated by defining the following statistic for group *j* at percentile

$$g_{ij} = \frac{P_{ij}^u - P_{ij}^r}{P_{ij}^r}$$

where the urban-rural gap in wealth is expressed as a percentage of the percentile cutoffs (*p*) in the rural area for each caste group (the superscripts *u* *r* and represent, respectively, the urban and rural areas). Estimates of the urban-rural gaps are shown in figure 4 for selected percentiles, with the bold horizontal reference line representing a situation of zero urban-rural disparity. The wealth gap is in favor of rural individuals at the bottom of the distributions of all castes. This is a reflection of the incidence of land ownership (however meager the farm size might be) in the rural areas among the poor, in contrast to the greater presence of property less individuals among the urban poor, irrespective of their caste identity. Notable differences exist among the castes in the percentile point at which their respective curves cross above the zero line. At one extreme are the non-Hindu others, for whom the switch favoring the urban areas occurs at the 20th percentile; at the other extreme, the switch occurs only at the 50th percentile for the OBC. The variation in the amount of urban-rural disparity among the castes appears to be much smaller at any given percentile point below the zero-line, i.e., when the disparity is in favor of the rural individuals. Above the zero-

line, when the disparity turns in favor of the urban persons, the amount of disparity (at any given percentile point) among the castes appears to vary much more. Clearly, the evidence suggests that the wealth advantage enjoyed by the urban individuals within every caste becomes higher at the higher percentiles, with the non-Hindu others standing out as a clear exception to this rule because the disparity in favor of the urban individuals in this group declines after the 70th percentile. The urban advantage skyrockets within the ST group in the top portions of the distributions, a result consistent with the well-known fact that the rural tribal areas fall among the most economically backward areas in India.

Conclusion

The average SC/ST person in India has a substantial disadvantage in wealth relative to people from other groups in both years of analysis. Among these other groups, the FC Hindus are the clear leaders in median wealth in both the rural and urban areas. For the second survey year (2002–03), the OBCs and non-Hindus occupied positions that placed them noticeably above the SC/ST groups, but significantly below the FC in terms of median wealth values. In a worrisome trend, the relative median wealth of the rural and urban ST is, in fact, lower in 2002 than in 1991. A similar picture of SC/ST disadvantage and forward caste advantage is evident throughout the distributions in terms of gaps in percentile cutoffs. Estimates of the matrix of ranks for caste groups also confirm the existence of sizeable wealth gaps between the forward castes and everyone else. Considered in conjunction with the findings documented in other studies regarding the considerable

shortfalls of the average SC/ST person in consumption, education, and development indices, the picture that emerges is one of comprehensive and persistent disadvantage for the disadvantaged groups in contemporary India. Our decomposition analysis shows that inequality between castes (between-group inequality) accounts for as much as 13 percent of overall wealth inequality in 2002. The less elaborate caste schema (three instead of five) that we were forced to use for 1991 due to data limitations results in a lower share of between-group inequality (8 percent). The major determinant of between-group inequality is the large gap between SC/ST groups (especially rural) and the forward castes (especially urban) in average wealth. It would be interesting to compare this result to the results that arise from using other variables to classify the population (e.g., age or education). However, it is reasonable to expect that irrespective of the “grouping variable” used, the share of within-group inequality is likely to be the dominant factor in overall inequality. There are, inevitably, other wide variations in the characteristics of households that, when taken together, are likely to contribute more than the classifying variable itself to wealth differentials within any group. Results from our decomposition analysis also indicate that the forward caste Hindus have a fairly low degree of overlapping with the overall population and, especially, with the SC/ST groups, i.e., they are more stratified in terms of their wealth distribution. The other groups show a fairly high degree of overlapping with the overall population, as well as with each other. Evidence of a polarized distribution could be detected for four groups—urban ST, urban NH, rural NH, and urban SC (overlapping index greater than 1). The first three of these groups have within-group inequality that is much higher than the overall inequality, while the Gini coefficient for the last group was lower than the overall Gini coefficient. With the exception of the rural SC, the other three SC/ST caste groups—urban ST, rural ST, and urban SC—witnessed increases in within-group inequality between 1991 and 2002. This was especially striking for the ST. Given its occurrence along with the deterioration in the median wealth of the group compared to the rest of the population, we might be witnessing the emergence of a “nouveau rich” or creamy layer stratum and growing income polarization within the ST groups.

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