

Growth and Inequality in India

Analysis of an Extended Social Accounting Matrix

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Abstract

Based on an extended Social Accounting Matrix (SAM) for the years 2002-03, we look how sectoral growth in India affects inequality. With the breakdown of the wage account into three levels of educational attainment and ten sectors of employment, the extended SAM links industries and households more directly than the standard SAM. It allows for a better analysis of the links between sectoral structure of growth, demand for skills, and household inequality. The results show that demand growth in agriculture reduces inequality, while demand growth in heavy manufacturing and three largely public service sectors raises inequality, especially community, social and personal services. This is mainly because the skill-intensity and the skill premium in these sectors is higher than in the rest of the economy. Growth in any sector would appear to reduce inequality, however, when using the standard SAM.