

Inequality in Returns to Education, Human Capital Formation and Discrimination in the Labour Market : A Case Study

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1. INTRODUCTION

*"In schooling and other investments in people,
the under-investment is patently most serious
in the case of poor people." - (Schultz, 1967:4)*

There are a few major studies on rates of return to Indian education.¹ But no study has so far paid any attention to the problem of unequal returns accruing to different groups of population. Since education, earnings and related aspects like unemployment, participation in the labour force etc., depend upon the basic income and social class structure in the society, it may be significant to study the problem and compute rates of return separately for each socio-economic group or class with a view to studying appropriateness of educational investment allocations.² The present study is an attempt in this direction. The hypotheses proposed to be tested in this study, which are not completely independent of each other are the following:

1. Returns to education accrue differently to different groups of population and unfavourably to the weaker sections;
2. There is inequality in human capital formation between different groups of population, the distribution being skewed against the weaker sections; and
3. The weaker sections are subject to labour market discrimination in wages.

Study of the latter two hypotheses would provide some sort of explanation to inequality in rates of return to education, as human capital is mainly assessed in terms of costs of education, while discrimination in the labour market reflects inequality in earnings. Further, these two aspects themselves constitute important aspects worthy of study. For instance, if discrimination reduces rates of return to education and persists in a severe form, education could prove to be a poor instrument of achieving equality (Thurow, 1969), and calls for anti-discrimination policies.