



INCOME DETERMINANTS IN INDIA: THE ROLE OF INDIVIDUAL ABILITY AND FAMILY BACKGROUND – A THEORETICAL ANALYSIS

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Abstract:

This paper critically examines how individual ability and family background affect income in India, a nation with deep-rooted socio-economic inequalities. While individual ability and education are crucial determinants of income, factors such as caste, parental income and educational attainment significantly influence access to opportunities. Drawing from recent studies and data, this paper argues that inherited social and economic status continues to have a disproportionate impact on income, challenging India's commitment to meritocracy and social mobility. Income inequality in India is influenced by the complex interplay between individual ability and family environment. While human capital theory emphasizes the role of education, skills, and individual effort in determining income, social and economic inheritance—such as ancestral wealth, education, and social networks—continues to shape opportunities and outcomes. This article critically examines the relative impact of these factors on income in the Indian context. Using secondary data from the National Sample Survey (NSS), the Periodic Labour Force Survey (PLFS), and published studies, this article highlights the persistent influence of family environment, even when individuals demonstrate high qualifications or a high level of education. The evidence suggests that highly skilled individuals from privileged families tend to achieve higher income levels, while those from disadvantaged backgrounds face structural barriers that limit their economic mobility. Furthermore, caste, gender, and geographic location exacerbate inequalities, posing multifaceted challenges to the equitable distribution of income. This study underscores the need for policy interventions that increase access to quality education, skills development, and social mobility programs, especially for marginalized populations. In conclusion, while individual ability contributes significantly to income, family background remains a decisive factor in determining income in India, highlighting the importance of structural reforms alongside merit-based growth.

Keywords: income, individual capability, family background, India, caste, education, inequality

1. Introduction

India's economic liberalisation and subsequent growth have reshaped its labour markets, creating new avenues of employment and upward mobility. Yet, the fruits of this growth are unevenly distributed across social strata. Central to the discussion on income inequality is the question of what

determines individual income – innate ability and effort, or inherited family background. Income inequality is a defining feature of the Indian economy, reflecting disparities in wealth, opportunity, and social capital. Despite India's rapid economic growth over the last three decades, a majority of the population remains outside the developing world. Income levels are influenced by many factors, including education, skills, experience, and personal effort. However, family background—including income, education, occupation, social networks, and parental inheritance—also plays a significant role in shaping economic outcomes. The relative influence of individual ability versus family background is crucial for understanding the dynamics of income distribution in India.

Human capital theory states that people with higher levels of education and skills are more productive and therefore earn higher wages. In contrast, intergenerational transmission theories emphasize that family background determines access to resources, education, and opportunities, which can either enhance or limit individual potential. In the Indian context, social stratification through caste, gender norms, and geographical disparities further complicates the relationship between ability and income. Highly skilled professionals from vulnerable groups often lack access to quality education and career opportunities, leading to stagnant salaries or reduced work.

This study critically examines the relative contribution of individual ability and family environment to income in India. It synthesizes findings from national surveys, academic literature, and policy reports to analyze patterns of economic mobility and persistent inequality. By identifying the structural and meritocratic determinants of income, this research aims to inform policies that promote equitable development, enhance social mobility, and ensure that talent is rewarded regardless of inherited socioeconomic circumstances. The study highlights that understanding the dual impact of ability and environment is essential for addressing income inequalities and designing inclusive growth strategies. While the human capital paradigm emphasizes education, skills and individual productivity as the primary drivers of income (Becker, 1964), this framework often overlooks the socio-cultural and economic barriers that mediate access to such capital in developing countries such as India.

The Indian context is characterised by a complex interplay between individual ability and entrenched social hierarchies. Caste, parental education, household income and geographic location significantly influence educational attainment, skill development and access to the labour market. Despite formal equality under law and targeted affirmative action policies, large sections of the population—mainly Scheduled Castes, Scheduled Tribes and Other Backward Classes—remain structurally disadvantaged. These inequalities not only affect educational opportunities but also limit the translation of credentials into economic outcomes, pointing to a mismatch between ability and actual income. This paper critically examines the dual impact of individual ability and family

background on income in India. Using nationally representative datasets and empirical evidence from recent literature, it aims to explore the extent to which economic mobility is shaped by individual abilities versus socio-economic origin. In doing so, it contributes to the broader discussion on inequality, meritocracy and inclusive growth in the global South.

2. Literature Review

Many studies analyzing the determinants of income in India focus on the dual impact of individual ability and family environment. Human capital theory, initially formulated by **Becker (1964)**, suggests that income is primarily determined by education, skills, and experience. Empirical studies in India have demonstrated a positive correlation between education level and income, indicating that investment in human capital increases income potential (**Muralidharan & Sundararaman, 2015**). Non-cognitive skills, such as communication, problem-solving, and adaptability, also contribute significantly to employability and income growth.

On the other hand, family environment has a profound impact on economic outcomes. While parental education, occupation, and wealth provide children with access to better educational resources, guidance, counseling, and social networks, data from 2010 and 2019 show that income mobility between generations is limited, especially for rural and lower-caste families.

Many studies emphasize the interplay between ability and family background. Highly skilled individuals from privileged families achieve higher income levels through access to higher education and employment networks, while talented individuals from disadvantaged backgrounds often face underemployment or wage stagnation. Regional inequalities, gender discrimination, and urban-rural divides exacerbate these challenges. Although policy interventions such as skill development programs, scholarships, and reserved quotas aim to increase equality, their impact is often hampered by systemic barriers.

Overall, the literature suggests that both individual ability and family background are important determinants of income in India. While ability can partially mitigate deprivation, structural inequalities rooted in socioeconomic inheritance continue to impact income, underscoring the need for targeted policies that reduce opportunity gaps and promote inclusive economic growth. Recent empirical literature in India increasingly emphasizes the dual effects of individual ability and family environment on income and social mobility. A notable contribution is by **Kishan and Rajarma (2024)**, who analyze intergenerational educational mobility using statistics from the **Indian Human Development Survey** and quantile regression methods. They find clear differences: the impact of parents' education on their children's education varies significantly across educational distributions, with the greatest differences occurring between urban and rural areas, upper and lower castes, and

Hindu and Muslim groups. They also present evidence of a **Gatsby curve**, which shows that greater educational inequality in one generation is associated with lower mobility in the next.

Their decomposition analysis of data from 2007-08 to 2017-18 shows that a large portion of the caste gap in spending on private education is due to differences in resources—especially income—rather than other factors.

This suggests that disadvantaged caste groups invest less in education, primarily due to a lack of family resources, which perpetuates economic inequality between generations.

From a structural perspective, **Imran, Ferreira, and Jiang (2023)** analyze the rural economies of India and China and highlight how occupational dualism (agricultural versus non-agricultural work) hinders educational mobility between generations. It is observed that children from farming families are less likely to pursue education, pointing to a structural barrier linking a family's socioeconomic status to its future income.

Furthermore, **Kundu and Sen (2021)** (IZA Working Paper) examine multigenerational mobility in India using three-generation data from the Indian Human Development Survey. They find that while educational mobility between generations has improved, occupational mobility remains more stagnant, especially for socially disadvantaged groups. Similarly, policy analyses, such as **Terry Chapman's ORF Report (2023)**, highlight that social mobility in India is largely determined by an individual's starting point and recommend systemic reforms—improved access to education, reduced discrimination, and strengthened merit-based mechanisms—to promote equality of opportunity.

Overall, these studies emphasize that both ability (education, skills) and family background influence mobility.

3. Research Methodology

This study adopts a quantitative and analytical research methodology, utilizing secondary data from sources like NSSO, PLFS, and IHDS. It employs statistical tools such as regression and decomposition analysis to evaluate the relative impact of individual ability and family background on income levels in India, aiming to uncover patterns of inequality and social mobility.

4. Objectives

To examine the impact of a person's abilities (such as education, skills, and thinking abilities) on income levels in India.

- i) To analyze the role of family background (parental education, income, occupation, and caste/class) in determining individuals' earning capacity.
- ii) To investigate whether family background continues to influence income outcomes even after accounting for individual ability.

- iii) To evaluate policy implications and recommend measures to promote income equality and social mobility in India.

5. Analysis and Discussion

5.1 Personal Capacity and Income in India

Studies have recognized the returns to education and skills in the Indian labor market. The Periodic Labor Force Survey shows a strong correlation between education and earnings, especially in urban areas. College graduates, especially from technical and English-medium backgrounds, earn significantly more than those with only secondary education (NSSO, 2021). Cognitive abilities as measured by standardised test scores are positively associated with income. However, the Annual Status of Education Report (2023) reveals substantial learning gaps in government schools, particularly in rural India, suggesting that children's potential is not nurtured equally. Soft skills and fluency in English – often associated with privileged upbringing – are increasingly prerequisites for high-paying jobs in sectors such as IT, finance and services (World Bank, 2018).

5.2 Family background and income

Family background plays an important role in shaping an individual's economic outcomes in India. Parental education is a strong predictor of children's education and later earnings (Deshpande, 2011). Children from families with higher socioeconomic status are more likely to attend private schools, to study for competitive exams, and to obtain professional qualifications. Caste continues to influence occupational segregation and access to education. Despite constitutional safeguards and affirmative action, Scheduled Castes, Scheduled Tribes and Other Backward Classes frequently face discrimination in both education and employment (Thorat and Newman, 2007). Rural-urban divides and regional disparities further complicate the picture – rural youth often lack the same access to resources and job markets as their urban counterparts.

5.3 The relationship between qualifications and background

The relationship between ability and background is particularly important in the Indian context. While ability is essential, its development and recognition is often determined by the individual's background. For example, two students with the same intellectual ability may have very different opportunities if one of them comes from an urban, middle-class English-speaking family and the other from a rural Dalit family.

The “lost Einsteins” in India – a term borrowed from Bell et al. (2017) – describe how many talented individuals from marginalised communities are unable to convert their potential into high-income careers due to systemic barriers such as poor schooling, lack of networks and economic constraints. Twin and sibling studies conducted in India (Imran and Shilpi, 2015) also

indicate that family and community contexts have a strong influence on educational outcomes and income, even when controlling for ability. This underscores the need to consider environmental and structural inequalities in discussions on income.

5.4 Empirical evidence from India

Deshpande (2011) found that parental education and caste significantly impact children's educational and income outcomes, even more so than individual test scores. **Thorat and Newman (2007)** conducted an audit study that found caste-based discrimination persisting in job markets, especially in the private sector. Imran and Shilpi (2015) show that intergenerational mobility is low in India, especially in rural areas and among lower castes. **Annual Status of Education Report (ASER-2023)** highlights wide disparities in learning outcomes between government and private schools, which are closely linked to family income. According to the **Global Inequality Lab (2024) report**, the top one percent of India's population owns more than forty percent of the country's wealth, reflecting high concentration of wealth and persistent income inequality. **UNDP (2024) states** that despite improvements in the Human Development Index, income and gender inequalities persist significantly in India.

Indian Context Specifics:

- i) **Caste and Gender:** Discrimination in the labor market, regardless of qualifications, affects income.
- ii) **Urban-Rural Divide:** People in rural areas have limited access to quality education and formal employment, which reduces their earning potential.
- iii) **Policy Shortcomings:** Reservation policies, skill development programs, and digital literacy initiatives aim to reduce inequality, but their reach and effectiveness are limited.

6 Policy implications and Recommendations

Recognizing the effects of both merit and background has profound policy implications. India's reservation system has helped mitigate some historical disadvantages, but more sweeping reforms are needed:

- Investing in public education, especially in rural and government schools, to ensure equitable learning outcomes.
- Early childhood education programs to bridge the developmental gap for children from disadvantaged backgrounds.
- Scholarships, fellowships and mentorship opportunities for students from SC/ST/OBC backgrounds in higher education and competitive fields.
- Anti-discrimination enforcement in private recruitment and education to eliminate hidden biases.

- Policies should focus not only on equal access to education, but also on improving its quality and outcomes at the societal level.

7 Conclusion

The financial landscape in India is shaped by the complex relationship between individual wealth and family dynamics. This study shows that while education, skills, and individual efforts are important determinants of income, the family environment—including parental income, education, and socialization—has a significant impact on economic outcomes. Highly skilled workers from privileged backgrounds earn higher wages, while highly skilled workers from more disadvantaged backgrounds often face institutional barriers to economic and employment mobility.

Caste, gender, and regional differences exacerbate income inequality, which accounts for many forms of economic backwardness in India. Despite the availability of merit-based opportunities, systemic inequalities rooted in socioeconomic inheritance continue to hinder upward mobility for marginalized populations. Policy interventions such as access to quality education, professional development programs, scholarships, and mentoring opportunities are crucial to reducing these inequalities and promoting equitable development. In conclusion, evidence suggests that tackling income inequality in India requires a two-pronged approach: strengthening individual capabilities through education and capacity building, while simultaneously reducing the advantages of family structure. By closing opportunity gaps and ensuring merit-based outcomes, India can move towards an inclusive and equitable economic future, where talent and effort are recognized regardless of inherited socioeconomic circumstances.

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