Poverty Alleviation and Prosperity

Mains: *GSIII – Economy*

Why in News?

Despite significant reductions in extreme poverty, India continues to face a high prosperity gap, stagnant wages and widespread informal employment.

What is India's Prosperity Gap?

- **Meaning** – The World Bank's prosperity gap measures the distance between people's income or consumption levels and the global prosperity benchmark.
- **Global Benchmark** – $28 per person per day (2021 PPP).
- **India's Position** – India's prosperity gap stands at 4.9, indicating that average consumption needs to increase approximately 4.9 times to reach the benchmark.
- **Income Distribution** – Around 63.9% of Indians fall between the $4.20 and $8.30 daily income thresholds.
- **Significance** –
  - Poverty reduction does not necessarily ensure economic security, upward mobility or a comfortable standard of living.
  - Millions escaping poverty still require substantial income growth to attain prosperity.
- **India's Progress in Poverty Reduction**
  - **Extreme Poverty** – According to the World Bank, 496 million people escaped poverty between 2011 and 2023, reducing extreme poverty ($3/day) to 2.6%.
  - **Lower-Middle-Income Poverty** – Population below the $4.20/day poverty line declined from 57.7% to 16.1%.
  - **Multidimensional Poverty** – MPI poverty declined from 53.8% (2005-06) to 16.4% (2019-21).
  - **Upper-Middle-Income Poverty** – Nearly 80% of India's population remains below the $8.30/day threshold.

What are the Structural Challenges Hindering Prosperity?

- **Informal and Low-Productivity Employment** – Around 90% of India's workforce was informally employed, with self-employment accounting for 55.8% of employment in 2022 (ILO).
  - Regular wage employment increased marginally from 22.4% (2024) to 23.6% (2025).
  - Unpaid family workers increased from 12.41% (2017-18) to 17.10% (2023-24),

indicating distress-driven employment.

- **Stagnant Wages and Limited Purchasing Power** – Real earnings have remained broadly stagnant, restricting improvements in household consumption.
    - ILO data indicate stagnant or declining real wages for regular salaried workers between 2012 and 2022.
    - Inflation reduces purchasing power despite increasing employment.
- **Unemployment and Skill Mismatch** – Youth unemployment increased from 14.6% to 15.9% between Q1 FY2026 and Q1 FY2027.
    - Only 46.7% of people aged 20–29 were employed (Time Use Survey 2024).
    - Educated youth constituted 65.7% of India's unemployed youth in 2022, highlighting the mismatch between education and labour-market requirements.
- **Weak Human Capital Markets** – Private education and healthcare providers often charge high fees without ensuring quality outcomes.
    - Poor quality assessment and inadequate regulation weaken returns on household investments in education and healthcare.
    - Educational qualifications do not necessarily translate into employability or better earnings.

What is the Way Forward?

- **Promote Quality Employment** – Encourage labour-intensive manufacturing, MSMEs and high-productivity sectors to generate secure employment.
- **Strengthen Formalisation** – Expand social security, labour protections and access to formal employment for informal workers.
- **Improve Wage Growth** – Ensure productivity-linked wage increases and strengthen workers' purchasing power.
- **Bridge Skill Gaps** – Align education, vocational training and industry requirements through demand-driven skill development.
- **Improve Human Capital** – Strengthen public education and healthcare while ensuring accountability and quality regulation of private providers.
- **Promote Inclusive Growth** – Expand opportunities for disadvantaged sections through targeted welfare, financial inclusion and regional development.

What lies ahead?

- India's achievement in reducing extreme poverty must be complemented by prosperity-oriented growth.
- Creating productive employment, improving real wages and strengthening human capital are essential to ensure secure livelihoods and a dignified standard of living.

Reference

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