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India's Prosperity Gap

Why Poverty Reduction Is Not Enough

India's Prosperity Gap – Latest News

India has achieved one of the world's fastest declines in extreme poverty, but a new World Bank framework — the prosperity gap — reveals that most Indians remain far from a genuinely comfortable standard of living.

This distinction between "poverty alleviation" and "prosperity" is critical for assessing whether India's growth is truly inclusive.

India's Poverty Decline: The Good News

Between 2011 and 2023, an estimated 496 million people moved out of poverty, as per the World Bank's latest Poverty and Equity brief.

Extreme poverty ($3/day) fell to just 2.6%.

The share below the lower-middle-income line ($4.20/day) dropped from 57.7% to 16.1%.

Non-monetary poverty also declined sharply: the Multidimensional Poverty Index (OPHI) fell from 53.8% (2005-06) to 16.4% (2019-21).

The Catch: Measured Against a Higher Bar

Using the upper-middle-income country (UMIC) threshold of $8.30/day (India's aspirational benchmark), 80% of Indians still fall below this line.

This translates to roughly ₹24,000/month — modest even by current Indian urban living standards.

Conclusion: Escaping extreme poverty does not automatically mean attaining prosperity, occupational security, or better living standards.

Understanding the Prosperity Gap

The prosperity gap is a World Bank indicator measuring how far a society's average income is from the global benchmark of $28/person/day (2021 PPP).

India's score: 4.9 — meaning average consumption must rise nearly five-fold to reach the prosperity standard.

Unlike per capita income, this metric is sensitive to distributional issues, emphasising that growth must benefit the least advantaged most.

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Income Segmentation (2023)

Below $3/day (extreme poverty): 2.6%.

Below $4.20/day: 16.1%.

Below $8.30/day: 80.0%.

Nearly 64% of the population falls in the $4.20–$8.30 band — just above poverty but far from prosperity, requiring incomes to rise three to sevenfold.

Why the Labour Market Is the Real Bottleneck

Escaping poverty is largely a statistical shift; building a secure economic life is a labour-market phenomenon — and India's labour market isn't delivering.

Youth unemployment rose from 14.6% to 15.9% (Q1 FY26 to Q1 FY27).

Informality dominates: ~90% of India's workforce is informally employed (ILO India Employment Report 2024); self-employment accounted for 55.8% of jobs in 2022.

Regular wage work barely improved — from 22.4% (2024) to 23.6% (2025), per PLFS.

Distress-driven employment: the share of unpaid family helpers rose from 12.41% (2017-18) to 17.10% (2023-24), suggesting rising employment often reflects distress, not opportunity.

Youth are hit hardest: only 46.7% of 20–29-year-olds were employed (NCAER, Time Use Survey 2024); educated youth comprised 65.7% of all unemployed youth in 2022 — highlighting a skills-jobs mismatch.

The Human Capital Market Problem

Households investing in private education and healthcare to climb the economic ladder often cannot judge service quality.

Scholars describe these as "human capital markets" — fee-charging private providers where quality is hard to verify, and paid schooling doesn't guarantee graduates convert investment into employment.

Stagnant Wages: The Final Barrier

Even employed Indians often don't gain economic security, as real wages have remained broadly flat.

ILO data shows real wages for regular salaried workers stagnated or declined between 2012 and 2022.

Without wage growth adjusted for inflation, employment alone doesn't translate into improved consumption or comfort.

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Conclusion

India has proven it can combat extreme poverty — but prosperity remains elusive for the vast majority. The real bottleneck lies in the labour market: informal jobs, stagnant real wages, rising youth unemployment, and a mismatch between education and employment opportunities.

True Viksit Bharat ambitions demand more than poverty reduction; they require structural reform in job quality, human capital services, and wage growth to convert statistical escapes from poverty into genuine, durable prosperity for ordinary Indians.

