ECONOMIC NOTES

From poverty alleviation to prosperity

India has reduced extreme poverty, but its high prosperity gap shows that millions remain far from a comfortable standard of living; informal work, stagnant wages and limited employment opportunities continue to constrain upward mobility

Beyond the **poverty line**

India's gains in poverty reduction have yet to translate into secure livelihoods and a better standard of living

Graph 1: Decline in poverty rates across three income thresholds between 2011 and 2023

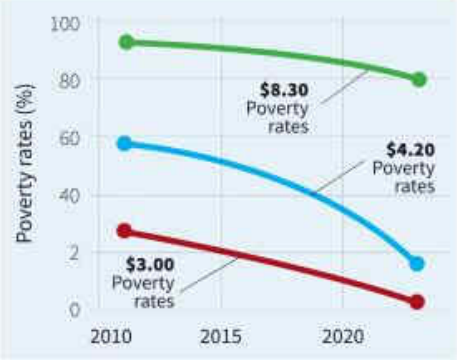


Table 1: The $4.20–$8.30 income group accounts for the largest share of India's prosperity gap

Band (2023)	Share of people	Factor needed	Contribution to 4.9
Below $3.00	2.6%	at least 9.3	at least 0.24
$3.00 to $4.20	13.5%	6.7 to 9.3	0.90 to 1.26
$4.20 to $8.30	63.9%	3.4 to 6.7	about 2.2 to 4.3
Above $8.30	20.0%	below 3.4	at most 0.67

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THE GIST

- The World Bank's prosperity gap measures how far incomes are from the global benchmark of $28 per person per day; India's score of 4.9 points to the scale of the income increase required

- Nearly 64% of Indians fall in the $4.20-$8.30 daily income band, highlighting the concentration of the population just above the lower-middle-income poverty threshold

- Poor-quality human capital services, the prevalence of informal work, and the mismatch between educational qualifications and available jobs impede socio-economic mobility

From the poverty income ruler line provided by the recent World Bank estimates, India has recorded one of the fastest extreme income-poverty declines in the world, as per its latest Poverty and Equity brief, which highlights that between 2011 and 2023, an estimated 496 million people moved out of poverty, with extreme income-based poverty ($3/per day) declining to 2.6%.

For the same period, the share of the population living below the lower middle-income country line ($4.20/day, 2021 PPP) fell from 57.7% to 16.1%. Non-monetary poverty indicators, as per OPHI's Multi-dimensional Poverty Index, also recorded a sharp reduction in overall poverty numbers, i.e., from 53.8% in 2005-06 to 16.4% in 2019-21.

The figures undoubtedly reflect that India has managed to reduce extreme poverty at a faster pace, even though one has to keep in mind the current (vs aspirational) stage of development position with respect to its measurement calculus, as determined by the poverty-measure line used, i.e., as a least developed country ($3/per day) or low- and middle-income developing countries (LMIDC) ($4.2/per day).

If we take the upper middle-income (UMIDC) poverty-measurement line, which is where India would like to be positioned for becoming more Viksit than now, this line would be defined as $8.30 per person per day as of current estimates. As per this measure, 80% of India's population would currently be below this poverty line of $8.30, applicable for an aspiring upper-middle-income country.

The conversion for $8.30/day may come to roughly ₹800 a day per person, with a monthly pay working out to about ₹24,000, which, even by current living standards across cities in India, is not much to speak of. And so, in that context, 80% of Indians still earn less than ₹24,000 per month (as per the $8.30/per day measure).

Irrespective of which line or measurement space one examines India's income-poverty position, one has to intersectionally relate this to assessing whether Indians, despite moving out of extreme poverty (3$/per day), are actually becoming more prosperous or not. Lifting millions above the extreme poverty line represents basic progress; however, it does not, in isolation, establish that the population has acquired better occupational

status, socio-economic opportunities, or a better standard of living over time. Understanding the distance between escaping poverty and attaining prosperity is therefore critical to holistically evaluate whether India's economic growth is inclusive.

Measuring the prosperity gap

The prosperity gap is an indicator adopted by the World Bank that measures how far a society is from the baseline standard of prosperity. Introduced to promote the goal of prosperity, the criteria aim to increase sensitivity to distributional issues, shifting the conventional understanding of economic development away from average per capita income, and emphasising that good growth should benefit the least advantaged in society.

As per the recent brief, India's prosperity gap is 4.9, measured against the global benchmark of $28 per person per day (in 2021 purchasing power parity terms). Hence, the average consumption levels across India's population will need to increase by a factor of 4.9 to reach the desired standard of prosperity.

Since improvements in the earnings of poorer persons contribute more significantly to reducing the prosperity gap, India's score of 4.9 leads to the implication that despite substantial reduction in poverty, the nation must still strive for prosperity. A closer inquiry into the World Bank's poverty estimates reveals this marked unevenness in development.

In 2023, an estimated 2.6% of the population lived below $3.00 a day (the extreme poverty line), 16.1% below $4.20 (the lower-middle-income line) and 80.0% below $8.30 (the upper-middle-income line). Calculating the difference between successive thresholds, about 64% of the population lay between $4.20 and $8.30.

These percentages assist in inferring a segmentation of the prosperity gap, which is the average, across all people, of $28 divided by each person's daily income. The resulting gap is the factor by which that person's income must rise to reach the benchmark. For instance, a person earning $8.30 needs a factor of 3.4 to be considered prosperous.

Hence, it can be estimated that the 63.9% between $4.20 and $8.30 constitute the largest share of 4.9, leading to the inference that India's prosperity gap remains high because many Indians who have left poverty require their incomes to rise three to sevenfold to reach prosperity (Table 1).

This estimate indicates that this aspirational upward hike is difficult, and the factors that have helped escape poverty are not necessarily the same as those needed to achieve prosperity.

Mobility and human capital markets

While escaping poverty is a statistical phenomenon, building a secure socio-economic life is a labour-market-driven occurrence, and evidence suggests that India's labour market is still not seamlessly transforming the first event into the second. The World Bank brief itself flags this issue by stating that real earnings are broadly flat, employment growth is concentrated in low-productivity work, and youth unemployment rose from 14.6% to 15.9% (Q1 FY2026 to Q1 FY2027).

The data suggest that individuals exiting poverty are being met with weak jobs and uncertain routes to middle-income subgroups. Consequently, the underlying factors explaining the friction in a shift to a prosperous life imply that while employment is expanding, the quality of available jobs is concerning.

For instance, the ILO India Employment Report 2024 found that approximately 90% of India's workers were informally employed, with self-employment accounting for 55.8% of employment in 2022. The 2025 PLFS annual report provided only a modest relief, with regular wage work noted to have risen from 22.4% in 2024 to only 23.6% in 2025.

Informality is reinforced by research that unveils that an increase in employment can be the result of distress, rather than opportunity. Using PLFS data, it has been recorded that the share of unpaid family helpers among all workers increased from 12.41% in 2017-18 to 17.10% in 2023-24. This leads to an unfortunate deduction that increased employment does not necessarily translate to an expansion of well-paying, tertiary sector jobs.

One of the strongest indicators that the market is not functioning at its best is the fact that young entrants face the harshest undercurrents when entering the workforce. NCAER's analysis of the Time Use Survey 2024 found that only 46.7% of 20–29-year-olds were employed, with occupational opportunities varying across States.

The most startling figures pertain to the educated youth, as according to The India Employment Report 2024, educated young people accounted for approximately 65.7% of India's unemployed youth in 2022. This phenomenon highlights a mismatch between the qualifications young people are acquiring and the employment opportunities available to them.

Interestingly, households striving to enter the middle class through improved education and healthcare find themselves buying services they may not be able to easily evaluate when selecting.

Das and Dobbin describe 'human capital markets' as riddled with a plethora of fee-charging private providers of education and health, in which quality is difficult to determine, and services are a consumption and an investment. Paid schooling and care do not always guarantee the intended human capital formation, materialising in graduates being unable to convert their investments into employment opportunities.

A paradox that minimises the gains sought to follow increased employment is that even when people are employed, their earnings may not be sufficient to nudge them into a more comfortable economic position. This can occur because real wages have remained broadly flat, as observed by the World Bank brief, and substantiated by the ILO's India Employment Report 2024, which pegged real wages for regular, salaried workers as having remained stagnant or having declined between 2012 and 2022.

The report highlights that being able to consume has very little to do with one's job security, if earnings are not adjusted to the inflationary currents of the market. India has proven that it can combat poverty; however, it is yet to prove that it can foster prosperity. Even though many have breached the poverty line, the prosperity gap remains a caution that for an average Indian, a stable, comfortable life is still out of reach.

For Indians, the journey from escaping poverty to attaining prosperity will require tackling structural and institutional barriers that dictate who can progress and who only survive. The country has already achieved the first basic feat in extreme income poverty. Now, the focus for an aspiring country to become developed would require a transformational shift in supporting more prosperity-enhancing growth that secures and promises better livelihoods, effective human capital-building services, and genuine economic and social opportunities across the socio-economic pyramid. The road to doing that seems far ahead at this point.

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