

**ESSAYS ON RELATIVE POVERTY AND LABOUR MARKETS IN
INDIA**

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Abstract

The thesis includes two essays on relative poverty and labour markets in India. In the first essay, we estimate relative poverty in India between 1993 and 2012, a period of high economic growth, using the World Bank's Societal Poverty Line (SPL). SPL is a hybrid poverty measure that covers both relative and absolute notions of poverty. The SPL, as conceptualized by Jolliffe and Prydz (2021), is based on the parameterization of the cross-country empirical relationship between how nations update their official poverty lines over time with a change in their respective average living standards. We show that India's societal poverty headcount ratio declined during the two decades by 21 percent, less than half of the rate of reduction seen using India's official absolute poverty lines. We decompose the change over time in the societal poverty ratio and find that its slower pace of reduction is largely due to an increase in living standards. We find that rural India has experienced unconditional poverty divergence (both absolute and societal): states that started out with a higher initial poverty ratio (absolute or societal) in 1993-94 experienced proportionately slower reduction over the next two decades. Urban areas, in contrast, have witnessed poverty convergence. We show that poverty divergence at the state-sector level is primarily driven by spatial divergence in mean household per capita consumption expenditures.

Furthering the investigation on the issues of relative deprivation, in the second essay, we study the labour market impact of the "Veblen effect" by estimating the relation between inequality and average work hours in society and how the effect varies between the poor and the non-poor. Using data on actual hours worked by members of a household from India's Periodic Labour Force Survey, we report three main findings. First, members belonging to absolutely and relatively poor households work for fewer hours than those in non-poor households. We observe that absolutely poor (relatively poor) households work for almost 45 (22) minutes less

per day than the average working hours of non-poor households. Second, the impact of inequality (measured by a 90/50 percentile ratio) on average work hours is positive, large, and statistically significant. A one standard deviation increase in the regional 90/50 percentile ratio is associated with a 2.8 percent increase in the average work hours of a non-poor household. However, the impact of increased inequality on the increase in the work hours of absolutely poor households is smaller. Overall, higher inequalities induce poor households to work more by 1.68 percent. Third, we also find evidence that poor households do show more willingness to work for additional hours than non-poor households. This essay contributes to literature in three main ways. First, it confirms Bowles and Park (2005)'s conjecture that the Veblen effect cascades down the income distribution. Second, we add to the extant body of literature on the working poor and how work hours differ between poor and non-poor households. Third, by showing that poor households are more willing to work for additional hours, we find evidence for time-related underemployment among the poor.

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Chapter 4

Conclusion

In this thesis, we explore two questions on the theme of relative poverty and labour markets in India.

The eradication of poverty and addressing inequalities across the globe is one of the major global challenges of the 21st century. There has been a long-standing interest of scholars in poverty in India, and this has been accompanied by a vigorous debate on what happened to poverty in India over the last few decades. In this context, this thesis provides an alternative way to approach the poverty debate in India using relative poverty lines, which we argue are highly relevant given the fast-paced economic growth and resulting changes in the standard of living.

The thesis contributes to the literature on poverty, inequality, and labour markets. The evidence provided in the thesis has implications for economic policy formulation on the poverty alleviation and labour market front. Through this thesis, we answer questions related to the assessment of poverty in a country like India, where rapid economic growth impacts notions of poverty and deprivation. We enquire about what has happened to relative poverty in India over the two decades between 1993 and 2012. Moreover, as relative income matters, we question how relative deprivation influences labour market outcomes. To be precise, we enquire how rising inequality affects the number of hours people work across the income distribution.

In the second chapter, we use the Societal Poverty Line, which reflects evolving notions of deprivation in the context of rapid economic growth. This alternative measure for the identification of the poor suggested in the chapter meets the need for a measure to be more reflective of the changing times and living standards of the population. We find spatial unevenness in the rate of reduction of the societal poverty's headcount ratio to be higher than

that of official poverty lines. We conclude that rural India has experienced unconditional poverty divergence (both absolute and societal). Using the decomposition method proposed by Ravallion (2012), we find evidence for poverty divergence among state-sectors, which is primarily driven by divergence in their mean consumption expenditure over the two decades. Thus, along with pro-poor policies to address the issue of poverty alleviation, there is a need to address issues of regional disparities in India to ensure regional convergence in the pace of poverty reduction.

In the third chapter, we show that the Veblen effect varies across the income distribution; that is, the increase in the consumption of the richest class increases the work hours for all income groups, but the rise is larger for the non-poor relative to the poor. We also conclude that the poor work significantly fewer hours relative to the non-poor at the individual as well as at the household level, adding to the international evidence on the work hours of the poor. An important aspect of our result is challenging the various normative judgments about the poor (like they put in less effort/ are lazy/ do not want to work) in the Indian context. We provide evidence that poor individuals report willingness to work for additional hours, but they face time-related underemployment. We conjecture that inequality alleviation can potentially lower the adverse labour market impact of the Veblen effect. Thus, the labour market impact of the Veblen effect should also be given consideration in poverty and inequality-alleviation oriented policy space.

Building on the present work, future research can explore the relationship between the Veblen effects and the recent trends in India's plummeting household savings and rising borrowing for consumption. The focus can also be on how gender, along with inequality, plays an important role in determining work hours across income distribution.

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