

# GUEST EDITORS

*Poverty in Focus* is a regular publication of the International Policy Centre for Inclusive Growth (IPC-IG). The purpose of this edition is bring together a diverse range of opinions and experts on the subject of the growing middle class in the developing world.

## Guest Editors

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**Front page:** The cacophony of voices, perspectives, definitions and interpretations of the middle class is depicted in the word cloud displayed on the cover of this edition of *Poverty in Focus*. The word cloud was created using the platform online at <[www.woordle.com](http://www.woordle.com)> and edited accordingly by the IPC-IG team.

**Editors' notes:** The IPC-IG is grateful to SAE (Secretariat of Strategic Affairs of the Brazilian Presidency) and Fábio Veras Soares for their support in the development of this special issue. We would also like to express our sincere appreciation to all of the authors for their generous contributions of intellectual inputs and time without monetary remuneration.

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**IPC-IG** is a joint project between the United Nations Development Programme and Brazil to promote South-South cooperation on applied poverty research. It specialises in research-based policy recommendations on how to reduce poverty and inequality. IPC-IG is directly linked to the Poverty Group of the Bureau for Development Policy, UNDP and the Secretariat of Strategic Affairs (SAE) of Government of Brazil.

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The 'Middle class' as a concept has evolved over time, taking on various meanings at different points throughout history, becoming an object to aspire to for poor people, a buzzword for politicians the world over, and the source of new customers for firms, and the global economy more broadly.

This special issue of *Poverty in Focus*, exclusively devoted to the exploration of themes related to the middle class is part of a larger endeavour initiated by the International Policy Centre for Inclusive Growth (IPC-IG), in collaboration with the Secretariat for Strategic Affairs of the Office of the Brazilian Presidency, to explore the middle class within a development context at national, regional and international levels.

Contributions to this middle-class-themed issue have come from leading scholars and development practitioners from across the globe who have addressed the phenomenon of the middle class from several different ideological, academic and regional perspectives to explore a variety of issues in relation to the significance of a growing middle class to overall development achievements.

The middle class is a highly contested concept as is evident by the diversity of its many definitions. Contributing authors here seek to navigate this unstable terrain; at times utilizing, and at others critiquing the prominent sociological and income-based definitions while being mindful of the middle classes' historically and culturally specific realities.

For policy-guided purposes, although quantitative-based approaches to define the middle class may seem to be directly applicable and appropriate for the context, it is also important to bear in mind that they sometimes require a further analysis to address definitional or operational aspects otherwise left out of income-based (quantitative) approaches. Income-based approaches in general reflect the middle of an income distribution (i.e., the middle class as the middle third of an income distribution), yet they all too often do not take into account many of the socio-cultural, psychological and, in some cases, political aspects of being a part of the middle class.

When speaking about the middle class, one must determine the reason or objective for trying to define the concept in the first place. It seems as though the term is quite relative, as income-based cut off points and conceptions can be easily adapted. However, the usefulness of infusing development discussions with examinations of a clearly defined middle class is not to be ignored. Those that are out of poverty but not yet economically secured in the middle class (via a definition of middle class based on economic security) as highlighted by several articles in this publication, form a group that is of significant importance to ensure development gains are not lost and that this very vulnerable group is enabled to continue to develop socio-economically towards entering such a middle class.

The past decade and a half of economic growth that has been experienced in the emerging economies of Brazil, Russia, India, China and South Africa (the BRICS nations), among others, has attracted much international investment, finance and social development attention, particularly to the regions that have lifted many people out of poverty throughout the same period. The growth of the middle class within such societies has also attracted much attention, and has been considered a segment of the global population that is set to be a new driver of the global economy. The relevance of such a segment of society in securing development gains, and its role in development more broadly remains a highly debated topic, reflected in the diversity of articles included in this issue.

This special issue introduces the reader to a variety of ongoing discussions while helping to raise a number of salient questions about the role of the middle class in development, among other questions such as: Will this rising middle class align its interests with the poor and vulnerable of society or with those of the wealthy? Is the middle class a force that strengthens democratic institutions? In developing countries will this rising middle class demand better quality and a larger quantity of public services from their governments? Or, will they increasingly opt out of public options, for services provided by the private sector (i.e., private health care, private schools etc.)?

On behalf of all of us here at the IPC-IG, I hope that the following set of articles exploring the different facets of the middle class, will help to inform readers of the complexity of trying to define the middle class as a quantitative grouping as well as a sociological phenomenon, and that they may also serve as a good introduction to the ongoing debates about the middle class within discussions concerning poverty reduction, democracy, civic action, economic growth and development more broadly.

*by Michael MacLennan*

# A Complex Universality: The Elusive Middle Class

by Michael MacLennan,  
International Policy Centre for Inclusive Growth<sup>1</sup>

**The middle class** in recent years has emerged as a subject and object of development in new and different ways throughout the globe. Much of the rapid expansion of the middle class in the developing world is due to the unprecedented number of people whom have risen out of poverty in countries such as Brazil, India, China and South Africa. Elsewhere, a myriad of economic challenges have resulted in austerity measures that have placed a damper on the vibrant aspirations and expectations of the middle classes in Europe and North America.

The growth of the middle class in developing countries is significant, as it represents a group of people, unprecedented in size, becoming more economically secure, or at least less vulnerable to economic shocks. In turn, this has led some to assert that this marks a shift in the parameters of development as we have known it in our modern age. Not only does the new middle class of the developing world demand a refined understanding of what 'poverty' means, but at the same time it also calls for greater insight into those members of society who are still vulnerable to falling back into poverty, and thus how the particular lived realities of this 'sub-group' differ greatly from those of the new middle class that are less vulnerable.

Rapid growth in both the economies, and the middle classes, of Brazil, Russia, India, China and South Africa (the BRICS nations) over the past decade has duly captured the attention of policymakers, academics and development practitioners and encouraged them to ask questions about the potential role of these growing middle classes in promoting democracy, strengthening institutions, and facilitating more inclusive forms of growth. Accompanying these questions is the more unsettling issue of how the BRICS nations might in fact be implicated in the apparent amplification of social inequalities in the face of 'economic progress', or, as some of the articles in this issue illustrate, their tendency to further polarise already unequal societies.

Whether it be the squeeze on the middle class experienced in the developed world or the new middle-class growth of the developing world, this seemingly peripheral subject has become more and more central to discussions of development and poverty reduction as the size and influence of such middle classes of developing countries in particular have become difficult to ignore.

In this issue of *Poverty in Focus*, Surjit Bhalla and Homi Kharas introduce the link between the rapid growth of developing economies and how this is creating a dramatically more equal distribution of global income, and, in the process is creating significant middle classes in the developing world

They explain the idea that both the political and material demands of middle-class people across countries are quite different from those of rich or poor people. Bhalla and Kharas indicate this to be important as the growth of the middle class globally can potentially disrupt the institutional equilibrium characterizing so many governments of developing states, whereby these governments tend to operate within the political and economic binary of addressing the interests of the rich or poor.

The duo demonstrate their understanding of middle-class aspirations that are under threat in advanced and emerging economies through their discussion of the role of the middle class in various protest movements around the world. Bhalla and Kharas highlight a growing middle-class angst and deconstruct the concept to determine its causes and its social, economic and political effects on society. Bhalla and Kharas argue that the worldwide growth in the middle class in general and the protest movements in particular need to be given a featured place in development discussions.

Building on the issues and questions raised by Bhalla and Kharas, Francis Fukuyama explores the interests and reasons for discontent of such members of the new global middle class. Linking the 2011 Arab Spring, protests in Turkey

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1. Middle Class Research Coordinator, International Policy Centre for Inclusive Growth (IPC-IG).

and the recent nationwide demonstrations in Brazil as being in part the result of the new rising global middle class, he reveals that change instigated by the middle class really only comes to pass once the middle class engages in building coalitions with other segments of society (as they rarely make up more than a minority of the population in developing countries and are often quite internally divided). Fukuyama subsequently examines this necessary building of coalitions with other groups in the protest movements of Egypt and Tunisia, and the success or failure of doing so in relation to the current ongoing protests and rapid middle-class growth occurring in Turkey, Brazil and China, among others.

Nancy Birdsall examines 'The Middle Class in Developing Countries—Who They Are and Why They Matter' first by dissecting the various approaches to defining the middle class within a national and global context as well as the advantages and disadvantages to using such definitions. She notes that describing the 'middle class' in developing countries in regards to absolute income allows for analysis of the middle class across different countries and time periods. This in turn provides a footing to engage in an examination of the economic and political causes and consequences of the size and characteristics of the middle class, whilst providing some insight into understanding the larger development picture.

Furthermore, Birdsall raises some very poignant questions about the middle class as an agent of change or support for existing structures and institutions such as:

- Will the new middle class rising in emerging economies be more likely to support market-oriented economic policies? Will this group be more likely to demand transparent and effective government and governance?
- Does the quality of public services matter to such a new middle class? Or, rather, will this rising middle class in many developing countries opt out of public options, for private options such as private health care, gated communities and private schools (once they attain a certain level of income)?
- Will this rising middle class see its interests aligned with the poor and vulnerable populations? Or conversely, will this group align

itself with the interests and values of the wealthy and elite?

Birdsall builds on this question of middle-class values aligning with or against established norms and institutions, or acting against them as an agent of change that is raised in the articles of Bhalla and Kharas as well as Fukuyama, who illustrate the relevance of such a question today, within the present-day protests occurring in both the developing and developed worlds.

Andrés Solimano adds to the complex discussion of defining the middle class introduced by Birdsall, and demonstrates how this further complicates the effects that economic and social policies have had on this segment of the population.

Solimano examines the impacts of the neoliberal era and globalisation on the social structure of countries as being:

- the sharp concentration of income and wealth among few economic elites;
- the movement of millions of people out of poverty and into the 'middle class';
- the increasing internal differentiation within the 'middle class'; and
- the outsourcing of firms and activities to countries with lower costs of production and wages, increasing import competition of low-cost manufacturing, and increasing rates of immigration and de-unionisation.

In his article, Solimano hones in on analytical and policy issues worth considering when analysing the impact of these developments on the middle class.

Luis F. Lopez-Calva then engages in a regional examination of the middle class in Latin America based on the past decade of economic growth and some governments' dramatic policy efforts to reduce inequality through state interventions. He introduces his new approach to analysing the middle class based on the concept of vulnerability to falling into poverty—or, rather, a degree of economic security. By applying such a definition of the middle class in Latin America, Lopez-Calva is able to classify different economic groups throughout the region. Moreover, he makes clear the role of the middle class within development as well as the case that for those still in poverty, in addition to those who have not yet secured a place in the middle class, social policies within the

region remain important. His analysis highlights the importance of those most vulnerable to falling back into poverty within society—that is, the large proportion of people who have emerged out of poverty yet are still not economically secure or stable as part of the middle class, while simultaneously remain outside the target group of poor people who receive the lion's share of the benefits from social programmes.

Further narrowing the regional discussion about the middle class introduced by Lopez-Calva, Marcelo Neri explains the concept of the 'new middle class' in Brazil using the socio-economic classes developed by the Centre for Social Policies of the Getúlio Vargas Foundation (CPS/FGV) that sees Brazilian society divided into classes A, B, C, D and E, where A is considered to be the wealthiest class, and E the poorest one. Neri explores in detail the growth of this 'Class C' (interpreted as the growth of a new middle class) to show how different and unique the recent economic growth experienced and social policies implemented in Brazil have helped lift many out of poverty, or what Neri refers to as the 'bright side of the poor'.

He explains in detail the character of such a 'new' middle class and its significance for Brazilian society, not necessarily as a new consumer class but, rather, as a new Brazilian productive class. Neri characterizes this 'new' middle class as one that has experienced income growth by way of real wage increases through channels of formal employment, and who are some of the most optimistic members of Brazilian society. He outlines the methodology used in his definition of the new Brazilian middle class and what types of analyses it allows for both as a description and as an operational and analytical definition.

Ricardo Paes de Barros and Diana Grosner then present their evaluation of income distributions and trends that affect the size of the middle class. They explore various states of development as characterized by different levels of income inequality and demonstrate the usefulness of their model in exploring societal transitions from one state to another as overall societal income increases. They illustrate that monitoring the evolution of the relative size of income classes, namely the lower class, the middle class and the upper class, can be an important tool to describe and understand the future trends and/or



transformations of national income distribution. They conclude that within societies characterized by very high income inequality, continuous growth will not lead, on its own, to the emergence of a middle class majority.

Marilena Chaui continues with a critique of the term 'middle class' used to describe the increase in the number of wage-earning employees in Brazil, and considers it to be a term that has been wrongly and far too hastily adopted. She does not consider such a group to constitute a growing middle class but, rather, sees it as a new and heterogeneous working class, defined by differences in education and by other skills and competencies.

She considers that the actual middle class feeds into the maintenance of order and stability because of its very fragmented nature that sees its interests torn between the aspirations of continuing to climb the socio-economic ladder, and its fear of sliding back down. Here is where her issue with the term 'middle class' is revealed to be much more than one of semantics, as she sees the use of the term 'new middle class' in Brazil (instead of 'new working class') as risking its ideological absorption by the ruling economic elite class. In this sense, Chaui provides a response to Nancy Birdsall's question about the character of the middle class, as she considers their emphasis on security to constitute a group that is extremely conservative and reactionary in Brazil, that helps to contribute to the maintenance and ideological status quo of the minority elite ruling class.

Like Chaui, Jesse Souza critiques the manner in which the middle class in Brazil has been defined. He adds to the critiques made by Chaui and demonstrates that the middle class in Brazil has been incorrectly named and considers such a group to form a new working class of individuals who have not 'emerged' or entered a new socio-economic class but, rather, have struggled and overwhelmingly 'fought' their way into better socio-economic positions. Souza sees such a group as characterised by discipline and self-control—attributes which have helped them to succeed socio-economically.

Miguel Foguel and Rudi Rocha continue the examination of the Brazilian middle class by exploring its vulnerability to economic fluctuations. The definition of

middle class used in their article is the one developed by the Brazilian Secretariat of Strategic Affairs (SAE), which shares similar elements to that introduced by Lopez-Calva based on the concept of economic security and the low probability of falling into poverty. In exploring the conception of the middle class and the degree of vulnerability to economic shocks, they present their own unique methodology to verify the robustness of this concept of vulnerability in relation to the middle class in Brazil.

Thomas F. Remington brings the middle class discussion to Russia as he explores Russian income distribution to examine economic development, inequality as well as the prospects of middle-class growth in post-Communist Russia. He demonstrates that the Russian economic dependence on the natural resource sector for economic growth has increased the incomes of the already extremely small wealthy segments of the Russian population, while furthering inequality and also stifling the growth of the middle class.

Zoya Hasan adds to the discussion introduced by Solimano about the effects of globalisation and neoliberalism on the middle class, as well as responds to Nancy Birdsall's questions of middle-class character, defining the new middle class(es) in India as lacking any interest in public programmes to narrow the inequality gap or ensure basic goods and services for the majority of Indians.

Hasan also discusses the growing political importance of India's middle classes and how they are re-shaping the political landscape. She argues that the growth of the middle classes are forcing political parties to reconcile the need to appeal to these significant and growing groups and their lack of desire for social spending, with the traditional political support bases: the poorest segments of Indian society.

Moving the focal point further East, Natalie Chun of the Asian Development Bank examines the opportunities and challenges of the rising middle class in Asia. She demonstrates that the increasing economic growth rates which have helped to develop a stronger and more stable middle class in Asia will not only continue to be vital for the further generation of growth within the Asia-Pacific region but will also serve as a significant driver of the global economy.

The last two articles round off an analysis of the middle classes within the BRICS countries by shifting the focus to the middle class of South Africa. Justin Visagie examines the multitude of ways to express the South African middle class, and those that he sees as most appropriate. In his exploration of the components of the South African middle class during and after apartheid, he also demonstrates how the concept fits within development discussions and its implications for policymaking.

Adding to the discussion, Mosidi S. Nhlapo and Barbara A. Anderson explore the composition of the South African middle class and how it has evolved over the past 15 years. They show that even though the size of the middle class in South Africa has grown, differences in the proportion of households with a middle-class standard of living still mirror differences between the four officially recognised racial groups of the apartheid era. Nevertheless, the South African middle class has become increasingly more reflective of the majority of South African society in terms of its composition.

This changing racial composition of the South African middle class has shifted South African product development and advertising campaigns in attempts to target this growing new consumer segment of society and its increasing levels of disposable income. Although the composition of the middle class has become more inclusive in South Africa, Nhlapo and Anderson show that in South Africa inequality between racial groups remains in regards to middle class entry, welfare and opportunities.

This special issue of *Poverty in Focus* brings together an extremely diverse range of conceptions of the middle class, and a variety of perspectives of its significance within several different discourses.

The following articles also help to shed light on both the elusive definition of what it means to be part of the middle class in different countries (beyond any academic or semantic exercise), as well as its role in development. In the years to come, as such a group within many developing economies continues to grow in size and significance, the response to such questions is also set to become increasingly important in parallel.



by Surjit Bhalla,  
Oxus Research and Investments  
and Homi Kharas,  
The Brookings Institution<sup>1</sup>

# Middle-class Angst Spills Over

**Brazil, India and China were once dismissed as primarily being home to large numbers of the world's poor people but are now recognised as major sources of an emerging global middle class.**

**Signs of middle-class angst are evident throughout the world: the middle class joined in the '99 per cent' movements in advanced economies and the recent anti-government protests in emerging ones as diverse as Brazil, India, Turkey, Egypt and Russia.**

**The concept of the** 'middle class' has roots that go back millennia, originating as a concept in the writings of Aristotle, who defined it as owners of property and thus the people best positioned to rule the state.

According to him, they were a moderating force with both the capability and incentive for sober governance, but through its long history, the middle class has been linked to a wide range of concepts from thriftiness to democratic spirit to unchecked consumerism.

In more recent years, this group of people has been increasingly recognised as a key driver of the global economy. Unlike poor people, they have meaningful amounts of disposable time and income. Unlike rich people, their numbers are great enough to establish global trends.

The rise of the middle class is undoubtedly one of the most important developments of the modern world, and the term's use rose steadily over much of the 19th and 20th centuries.<sup>2</sup> Countries such as Brazil, India and China were once dismissed as primarily being home to large numbers of the world's poor people but are now recognised as major sources of an emerging global middle class.<sup>3</sup>

Rapid growth in these and other economies is fundamentally reshaping the distribution of **world** income and making it dramatically more equal. Several authors have attempted to define and measure this important phenomenon; our estimates range from about 2 billion (Kharas, 2010) to around 3.5 billion people (Bhalla, 2007).

Economic transformations rarely leave other spheres of life untouched, and the current shifts are unlikely to prove an exception. One feature of these changes will be in the movement from a world with economic activity highly

concentrated in North America, Europe and Japan to a more balanced world economy with several major regional markets. In addition to changes between countries that have started to reverse the 'Great Divergence' of the 20<sup>th</sup> century, there will be significant transformations within countries as their populations shift from poverty to a more affluent existence.

The political and material demands of middle-class people differ greatly from those of rich and poor people, potentially disturbing the institutional equilibrium in many nations.

Signs of middle-class angst are evident throughout the world: the middle class joined in the '99 per cent' movements in advanced economies and the recent anti-government protests in emerging ones as diverse as Brazil, India, Turkey, Egypt and Russia.

The transformative potential of the middle class underlines the imperative for understanding possible future scenarios of global growth and income distributions.

The size of the world's middle class has grown rapidly in the past 15 years, spurred by the economic rise of populous developing countries. The ladder to the middle class—hard work, savings, higher education, urban opportunities and decent jobs—is now a real possibility in many countries.

One consequence of this trend is a large, youthful population accustomed to relatively high rates of income growth which they hope to retain in their adult lives.

However, job prospects may not be as rosy as they once were, particularly as the burgeoning of an educated population increases competition for white-collar positions.

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2. Google Ngrams, available online: [http://books.google.com/ngrams/graph?content=middle+class&year\\_start=1800&year\\_end=2008&corpus=15&smoothing=3&share=>](http://books.google.com/ngrams/graph?content=middle+class&year_start=1800&year_end=2008&corpus=15&smoothing=3&share=>) (accessed 8 August 2013).

3. Estimates vary from a low of around 400 million people for the G20 (Ali and Dadush, 2012).

4. See Jacobs (2010).

China, for instance, has increased its average years of education to just above Portugal's, and many of its new college graduates are finding it hard to obtain appropriate employment.<sup>4</sup> Even under a best-case scenario for technological growth, the growing numbers of the educated middle class will face considerable competition for high-skilled work.

It is then easy to understand why so many feel that middle-class aspirations are under threat in advanced and emerging economies alike. While the middle class generally pays the bulk of taxes, what they receive in return are often poorly delivered services whose quality is attenuated by corruption and waste.

As they and their children face the prospect of a job-market crunch and government resistance to reform, many have become increasingly vocal advocates for change, setting the stage for the recent middle-class, anti-government demonstrations.

The sudden surge in these protests reflects both a decreased cost of and demand for political action. New social media technology has greatly simplified the task of organising and energising political movements.

At the same time, protesters also feel that the standard channels through which to push for reform, whether democratic or not, no longer function. The only recourse is to march in the streets.

A much-discussed question about these protests is whether they stem from the naturally progressive inclinations of the middle class in line with Barrington Moore's (1966) formula of "no bourgeoisie, no democracy". Though certainly appealing, the evidence for this idea is far from robust. Many of the world's most totalitarian states, such as Nazi Germany or the Soviet Union, had relatively large middle-class populations.

Further, polls of middle-class people in developing countries do not suggest that they hold democracy's value as an article of faith; an analysis of the World

Values Survey in Peru showed that poor and middle-class people had roughly the same support for democratic governance (Cárdenas, Kharas and Henao, 2011).

Many middle-class people, of course, prefer democratic systems, but not necessarily as their first priority.

The 'middle-class values' at the heart of some of these protests may be far simpler than is often believed. While there are many poor people resigned to neglect from central authorities, and most rich people have the means to care for themselves, the relative well-being of a middle-class person can very much depend on the government's efficiency.

Improving public service delivery and reducing corruption were indeed key demands of the recent protests. Notably, the dissent now faced by Dilma Rousseff in Brazil was sparked by the seemingly mundane issue of fares for public transportation.

Anna Hazare's movement in India similarly focused on corruption rather than an idealistic call for improved democratic processes. Other recent protests, such as those against Turkey's Erdoğan or Russia's Putin, have featured politics more centrally, but balancing them out are those protesters in Egypt who called for the removal of both the authoritarian Mubarak and a democratically elected Morsi.

How can governments be more accountable to the middle class for their performance?

Democracy is an obvious answer, but there are many kinds of democracy, ranging from populist movements that cater to large numbers of poor people to those more cozy with big business.

Fewer democracies seem to appeal directly to middle-class issues of efficiency and effectiveness. One possible response by governments would be a 'power to the people' approach, allowing citizens to have greater influence on specific policies.

There is some evidence that governments are already experimenting with

*[When] The standard channels through which to push for reform, whether democratic or not, no longer function... The only recourse is to march in the streets.*

such strategies. About twice as many referenda are held today than 50 years ago, and many countries have implemented some form of direct democracy (The Economist, 2011).

The recent budget troubles of California, however, illustrate that direct voting is no panacea. It remains an open problem for governments of how best to structure themselves to maintain predictable policies while nonetheless providing channels through which to actualise middle-class desires for a better future. But governments that neglect this group should beware.

The middle class is unlikely to be docile and satisfied with generally good economic performance but, instead, holds the public sector to an increasingly high standard of accomplishment.

■  
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by Francis Fukuyama,  
Stanford University<sup>1</sup>

# The Middle-class Revolution

**In Tunisia, Egypt, Turkey and Brazil, political protest has been led not by poor people, but by young people with higher-than-average levels of education and income.**

**Middle-class status is best defined not by simple income levels, but by education, occupation and ownership of assets, which are far more consequential in predicting political behaviour.**

**There is a common** theme running through the 2011 Arab Spring, the protests in Turkey's Taksim Square and the recent demonstrations that have shaken Brazil. It is the rise of a new global middle class.

In Tunisia, Egypt, Turkey and Brazil, political protest has been led not by poor people, but by young people with higher-than-average levels of education and income.

They are technology-savvy and use social media such as Facebook and Twitter to broadcast information and mobilise demonstrations. Even when they live in countries that hold regular democratic elections such as Turkey and Brazil, they feel alienated from the ruling political elite.

In the case of Turkey, they objected to Prime Minister Recep Tayyip Erdoğan's development-at-all-cost policies and authoritarian manner.

In Brazil, the protesters are objecting to an entrenched and highly corrupt political elite that has showcased glamour projects such as the World Cup and the Rio Olympics while failing to provide basic services such as health and education to the general public.

The business world has been buzzing about the rising 'global middle class' for at least a decade now. A Goldman Sachs report projected that spending by the world's middle three income quintiles will rise from the current 31 per cent of total income to 57 per cent in 2050.

Another report by the European Union Institute for Security Studies predicted that the number of middle-class people will grow from 1.8 billion in 2009 to 3.2 billion in 2020, and 4.9 billion in 2030 (out of a projected global population of 8.3 billion).

The bulk of this growth is forecast to occur in Asia, particularly China and India.

But all regions of the world will participate in this trend. This includes Africa, which the African Development Bank estimates already has a middle class of over 300 million people.

Middle-class status is best defined not by simple income levels, but by education, occupation and ownership of assets, which are far more consequential in predicting political behaviour.

Any number of cross-national studies, including recent Pew surveys and data from the World Values Survey at the University of Michigan, show that higher education levels correlate with increased value placed on democracy, individual freedom and tolerance for alternative lifestyles. Middle-class people want not just security for their families, but choices and opportunities for themselves.

Those who have completed high school or have some years of university education are far more likely to be aware of events in other parts of the world, and to be connected to people of a similar social class abroad through technology.

Most importantly, newly arrived middle-class individuals are often most likely to experience what the late political scientist Samuel Huntington called "The Gap": that is, the failure of society to meet their rapidly rising expectations for economic and social advancement.

The latter phenomenon was clearly evident in the Arab Spring, where regime-changing uprisings were led by tens of thousands of relatively well-educated young people.

Both Tunisia and Egypt had produced large numbers of college graduates over the past generation, but the authoritarian governments of Ben Ali and Mubarak were classic crony capitalist regimes, in which economic opportunities depended heavily on political

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Please note that this is a redacted version of the Saturday Essay of the same title originally published in the June 29, 2013 U.S. edition of the Wall Street Journal (page C1).



connections. Neither country in any event grew fast enough economically to provide jobs for ever-larger cohorts of young people. The result was political revolution.

While protests, uprisings and, occasionally, revolutions are typically led by newly arrived middle-class individuals, the latter rarely succeed on their own in bringing about long-term political change.

This is because the middle class seldom represents more than a minority of the society in developing countries, and is itself internally divided. Unless they can form a coalition with other parts of society, their movements will not produce enduring political change.

Thus the young protesters in Tunis or in Cairo's Tahrir Square, having brought about the fall of their respective dictators, failed to follow up by organising political parties that were capable of contesting nationwide elections. Students in particular are clueless about how to reach out to peasants and the working class to create a broad political coalition.

By contrast, the Islamist parties—Ennahda in Tunisia, and the Muslim Brotherhood in Egypt—had a social base in the rural population. Through years of political persecution they had become adept at organising their less-educated followers.

The result was their triumph in the first elections held after the fall of the authoritarian regimes.

A similar fate potentially awaits the protesters in Turkey. Prime Minister Erdoğan remains popular outside the country's urban areas, and has shown little reluctance to mobilise members of his own Justice and Development Party (AKP) to confront his opponents.

Not only does this group face tough repression from a prime minister with authoritarian instincts, it faces the same difficulties in forging linkages with other social classes that have bedevilled similar movements in Russia, Ukraine and elsewhere.

The situation in Brazil is rather different. The protesters there will not face tough repression from President Rousseff's administration. Rather, the challenge will be to avoid co-optation over the long term by the system's entrenched and corrupt incumbents.

Middle-class status does not automatically mean that an individual will automatically support democracy or clean government. Middle classes there, and in Asian countries such as Thailand and China, have thrown their support behind authoritarian governments when it seemed like that was the best means of securing their economic futures.

Today's urban middle class could dissipate its energies in distractions such as identity politics, or else get individually bought off by a system that offers great rewards to people who learn to play the insiders' game.

Economic growth has produced a middle class in China that now numbers in the hundreds of millions and constitutes perhaps a third of the total population.

These are the people who communicate by Sina Weibo—the Chinese version of Twitter—and have grown accustomed to exposing and complaining about the arrogance and duplicity of the government and Party elite.

They want a freer society, though it is not clear if they necessarily want one-man one-vote democracy in the near term.

This group will come under particular stress in the upcoming decade as China struggles to move from middle- to high-income status. Economic growth rates have already started to slow over the past two years, and will inevitably revert to a more modest level as the country modernises.

The industrial job machine that the regime has created since 1978 will no longer serve the aspirations of this population.

It is already the case that China produces some 6–7 million new college graduates

*While protests, uprisings and, occasionally, revolutions are typically led by newly arrived middle-class individuals, the latter rarely succeed on their own in bringing about long-term political change.*

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*The technologically empowered middle class will be highly demanding of their politicians across the board.*

each year, whose job prospects are dimmer than those of their working-class parents. If ever there was a brewing 'Gap' between rapidly rising expectations and a disappointing reality, it will emerge in China over the next few years, with vast implications for the country's stability.

The new middle class is not just a challenge for authoritarian regimes or new democracies. No established democracy should believe it can rest on its laurels, simply because it holds elections and has leaders who do well in opinion polls.

The technologically empowered middle class will be highly demanding of their politicians across the board. The USA and Europe are experiencing sluggish growth and persistently high unemployment, which for young people in countries such as Spain reaches 50 per cent.

The older generation in the rich world has failed the young by bequeathing them crushing debts. No democratic politician in the USA or Europe should look complacently down on the events in Istanbul or São Paulo, and think "it can't happen here". ■

by Nancy Birdsall,  
Center for Global Development<sup>1</sup>

# The Middle Class in Developing Countries – Who They are and Why They Matter

**By 2030 perhaps 30 per cent, or 2 billion people (out of a projected developing-country population of almost 8 billion), will be middle class... [yet] ...there is no consensus among development economists on how to identify let alone define the middle class.**

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This article is based largely on Birdsall (2010) and Birdsall, Lustig and Meyer (2013). I thank profusely Christian Meyer for his help on the ideas and his sole authorship of the figures.

**With rapid growth** in emerging market economies over the last decades, millions of people have left poverty and entered the new global middle class. Using household income of US\$10 per capita per day (at 2005 purchasing power parity) as a minimum and \$50 as a maximum (more on that below), about 15 per cent of people in the developing world could be said to be middle class.

Relatively conservative country-specific projections of growth suggest that by 2030 perhaps 30 per cent, or 2 billion people (out of a projected developing-country population of almost 8 billion), will be middle class (Figure 1). By that time, the number of middle-class people in today's developing countries will be slightly larger than the number in today's developed countries.

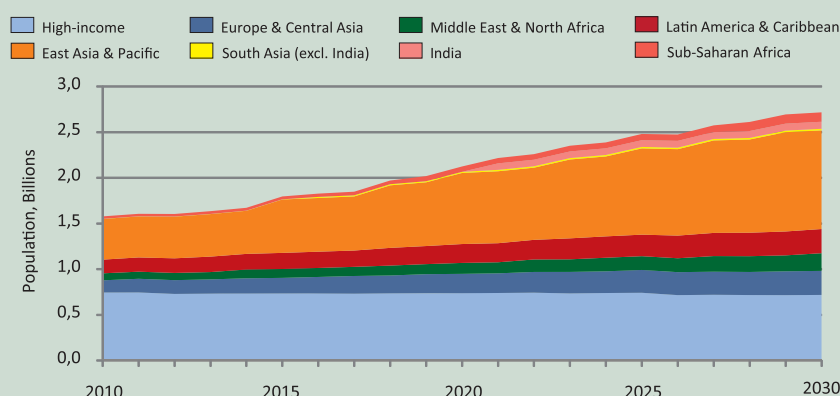
There is no consensus among development economists on how to identify let alone define the middle class (Figure 2a). Why a minimum threshold of

\$10 per capita per day, or around \$15,000 per year for a family of four—thresholds which put the resulting 'middle class' above the middle of the distribution even in upper middle-income Brazil (Figure 2b)? And why absolute income thresholds in the first place, rather than the more obvious and conventional identification of middle class as those in the 'middle' of a country's or the world's distribution?

First, on the \$10 threshold. In the relatively open economies of most developing countries today, households at lower levels of income, though no longer poor, are still highly vulnerable to external and internal idiosyncratic risks, such as an economy-wide recession or a personal health problem. Lopez-Calva and Ortiz-Juarez (2011), using panel data on households in Latin America in the 1990s, show that below \$10 per person, households have more than a 10 per cent probability of falling into poverty over five years. Their finding is fully consistent with evidence that at low levels of income, household income is volatile, and in many countries more people spend time as 'poor' over several years than the rate of poverty in any one year implies. To be middle class implies sufficient income (about \$10 per person per day, at least in Latin America) for a household to be reasonably secure in a material sense—able to save, invest and plan for the future (with a low discount rate in economic terms).

Second, in opinion and value surveys, again in Latin America, self-reported class status seems to confirm the \$10 threshold (Ferreira et al., 2013). This may be a coincidence, or it may be that people in several Latin American countries intuitively associate the economic security of being above \$10 with middle-class status.

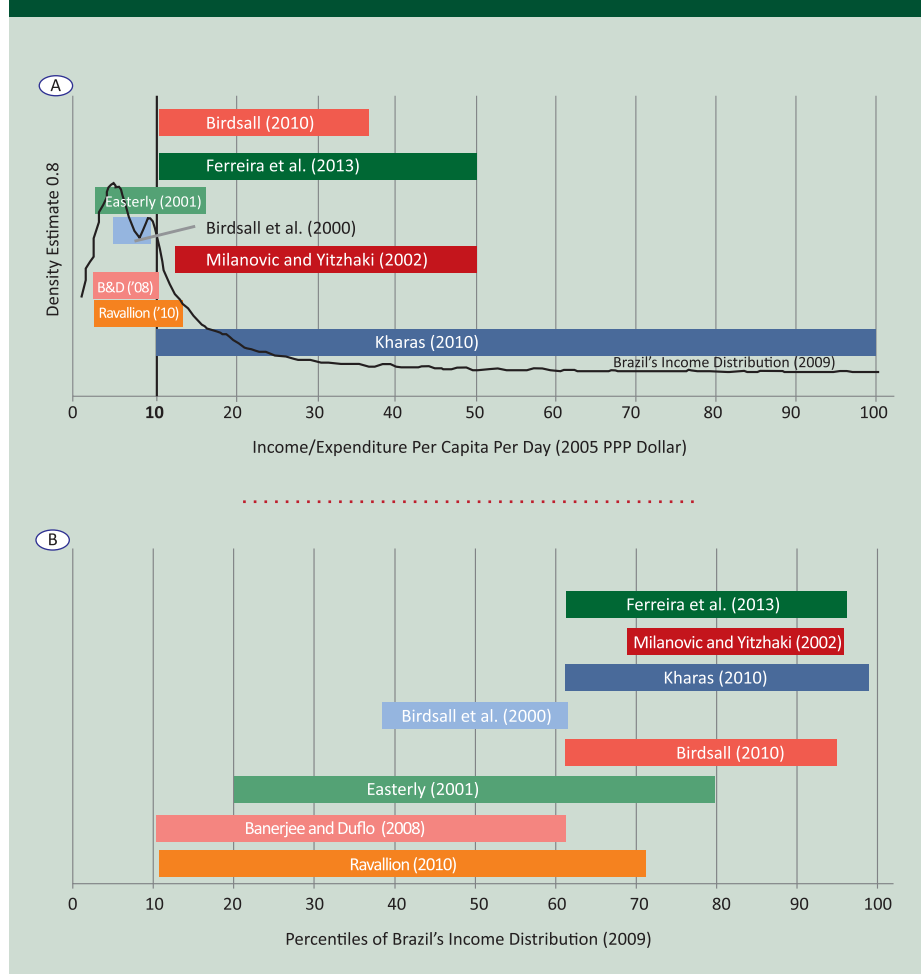
**Figure 1**  
**Where Will the \$10–50 Per Capita Per Day Middle Class Live?**  
**Global Population, by Region**



Note: Scaled to global population using UN DESA population forecasts (medium variant).

Source: Birdsall, Lustig and Meyer (2013).

**Figure 2**  
**Various Approaches of Identifying the Middle Class, by Absolute (Top Panel)**  
**and Relative (Bottom Panel) Household Income/Expenditure**



Source: Author's elaboration.

At the top, \$50 turns out to be a sensible proxy for excluding rich households. Only about 2 per cent of households in Latin America report daily income per person above \$50—or about \$75,000 for a family of four. (There is good evidence of substantial underreporting of income in household surveys; therefore, an alternative to \$50 is to simply assign the top 2 per cent of households in the income distribution in every developing country to the category of 'rich'.)

The identification of 'middle class' in developing countries by absolute income has the great advantage of allowing analysis across countries and over time of the economic and political causes and consequences of the size and characteristics (schooling, employment) of the middle class, and the lessons for understanding some of the big

questions about the dynamics of development and poverty reduction—including the fundamental question: why nations grow or fail to grow. In an increasingly integrated global market economy, with better household data and such analytic advances as purchasing power parity pricing, absolute thresholds are more possible and defensible than in the past.

The global growth of the middle class over the next decades will bring with it significant shifts in global production and consumption patterns that have been widely remarked.

Perhaps more important from a development perspective is the question of how members of an income-secure and independent middle class will matter in their relationship with the state—as

taxpayers and beneficiaries of the social system and as active citizens and voters—and how or whether they will support growth that is inclusive and reduces poverty. Will the new middle class be more likely to support market-friendly economic policies, more likely to demand a level playing field in their economies, with transparent and effective government and governance, and more likely to support sensible pricing of power, water, higher education, social insurance and the exchange rate?

To what extent does that and will that depend on the quality of public services, the size and quality of government and confidence in its effectiveness at any one time?

There is no question that the rising middle class in developing countries is the outcome of recent healthy rates of growth.

Perhaps in a virtuous cycle, recent growth in India, Africa, China and much of Latin America—whether driven by 'luck' (high commodity prices, natural resource windfalls), 'globalisation' (trade, capital and labour movements), good policy (sound macroeconomic fundamentals, more democratic and accountable governments) or the intangible benefits of the information revolution or of changing global norms (consider the Millennium Development Goals) that have put more girls in school—will be more likely to be sustained and institutionalised because an independent middle class has become big enough and politically powerful enough to be a force for good government and equal-opportunity growth.

That would imply that the demands of the new middle class in developing countries will involve little trade-off with social programmes, redistributive tax and expenditure policies, and poverty-reducing growth overall.

Or perhaps not. Perhaps the rising middle class in many developing countries will opt out, into gated communities and private schools, and see its interests aligned not with the poor and vulnerable populations

(in almost all developing countries still a larger proportion of the population for the next several decades) but with a new rich class that is also benefiting from growth and globalisation, and also and more so able to punch above its weight at home and in global settings.



by Andrés Solimano,  
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**These trends have polarised the structure of societies, creating large differences in income and wealth between the very rich, the middle class and the working class, contributing to social anxiety, despair, discontent and a propensity to protest.**

**A shortcoming of income-based definitions of the middle class is the reduced informational power to infer the effects of policies on social rights of the middle class, the degree of their economic security, their voice and sense of empowerment.**

Birdsall, N. (2010). 'The (Indispensable) Middle Class in Developing Countries' in R. Kanbur and M. Spence (eds), *Equity and Growth in a Globalizing World*. Washington, DC, World Bank: 157–188.

Birdsall, N., L. Lustig and C.J. Meyer (2013). 'The New Poor in Latin America: Challenges and Risks', *CGD Working Paper Series*, forthcoming. Washington, DC, Center for Global Development.

Ferreira, F.H.G., J. Messina, J. Rigolini, L.-F. Lopez-Calva, M.A. Lugos and R. Vakis (2013). *Economic Mobility and the Rise of the Latin American Middle Class*. Washington, DC, World Bank.

Lopez-Calva, L.-F. and E. Ortiz-Juarez (2011). 'A vulnerability approach to the definition of the middle class', *World Bank Policy Research Working Paper Series*, No. 5902. Washington, DC, World Bank.

# Neoliberalism, Globalisation and the Middle Class

**At least four main** impacts of the neoliberal era and globalisation on the social structure of countries can be distinguished.

First, there has been a sharp concentration of income and wealth in small economic elites. This phenomenon is known as the 'rise of the top 1 per cent'. In countries that were pioneers in embracing the neoliberal model, such as the USA, the income share of the richest 1 per cent of the population is about 22 per cent. In the UK it is 15 per cent, and in Chile it reached a record 30 per cent.

Second, in the last two decades or so, due to rapid growth in China, India and some Latin American countries, millions of people have left poverty and joined the ranks of the 'middle class', at least when measured statistically in terms of the number of people living above the poverty line.

Third, there has been a process of internal differentiation within the middle class. Individuals working in public schools, public hospitals, ministries and public enterprises have suffered the adverse effects of fiscal retrenchment, austerity policies and privatisation.

On the other hand, an 'emerging' middle-class segment formed by financial experts, lawyers, economists and business administrators has seen its income rise and has joined the ranks of the technocracy of the large corporations.

Fourth, the salaries and employment of the working class have been affected by delocalisation of firms and outsourcing of activities to low-wage countries, increased import competition of low-cost manufacturing, and increased immigration and de-unionisation.

These trends have polarised the structure of societies, creating large differences in income and wealth between the very rich, the middle class and the working class, contributing to social anxiety, despair, discontent and a propensity to protest.

This article focuses on analytical and policy issues worth considering when analysing the impact of these developments on the middle class. These refer to the elusive concept of middle class, its alleged roles as source of consumer power and entrepreneurship, and its contribution to the stability of democracy.

## Issues of the definition of the middle class

Analysis of the middle class has devoted substantial effort to reach a workable definition of this segment of the population. Economists tend to use income-based (or consumption-based) definitions, which can be absolute (for example, dollars of income per day or month) or relative, such as deciles or percentage of median income.

A shortcoming of income-based definitions of the middle class is the reduced informational power to infer

1. President, International Center for Globalization and Development, CIGLOB.

the effects of policies on social rights of the middle class, the degree of their economic security, their voice and sense of empowerment. International organisations have applauded the rise of a 'new global middle class' that basically emulates consumer patterns of advanced capitalist countries, but they probably pay less attention to these other dimensions.

Sociologists prefer to define the middle class in terms of patterns of occupations, asset ownership, values, attitudes toward risk, and aspirations of upward social mobility. In this framework the middle class is defined in terms of its insertion into the productive structure of the economy and its attitudes. Some authors such as Gilbert (2008) identify the middle class as a "majority class"; according to his calculation, around 60 per cent of the population of the USA would be middle (majority) class.

### **The contributions of the middle class to development and democracy**

The new literature on the middle class stresses positive contributions of having a large and solid middle class on the economy. Solimano (2009) examines three channels: (a) the impact of the middle class on consumer demand; (b) the middle class as a source of entrepreneurship; and (c) the links between the middle class and the stability of democracy.

These three channels need to be evaluated critically in terms of their merits and limits. The argument that a larger middle class **stimulates consumption and aggregate demand** needs some qualification. Certainly, middle-class families demand consumer durables, education services, travel, housing and other services. However, middle-class people and families also rely, largely, on debt to finance these outlays. This makes them vulnerable to financial shocks and instability in the labour market such as the crises triggered in 2008 with job losses, record youth unemployment rates (in Greece and Spain, above 50 per cent) and lack of credit.

A second channel is the **middle class as a source of entrepreneurship**. This identification has historical roots dating

from before the industrial revolution in England when an emerging capitalist class emerged from the urban middle class. The new entrepreneurs—unlike the landlords, the story goes—were more oriented towards savings and tolerated 'delayed gratification' to accumulate capital, earn profit and ascend in the social hierarchy. However, the middle class is a heterogeneous group comprising also of middle-class bureaucrats, small shop owners, professionals and intellectuals besides entrepreneurs.

In addition, the entrepreneurial segment of the middle-class is itself highly differentiated, with both 'entrepreneurs of opportunity' and 'entrepreneurs by necessity' (owners of small shops and firms that earn a modest rate of return that provide an income for living).<sup>2</sup>

A third channel focuses on the middle class as a **stabilising and democratic segment of society**. The argument is that a moderate political centre would come along with a large and consolidated middle class, and this would reinforce economic and political stability. In contrast, unequal, polarised societies may provide a milieu prone to authoritarianism and populism, which are inimical for a stable democracy. The historical record of crises of democracy in Latin America and Europe in the 20<sup>th</sup> century suggests a more nuanced story of the relationship between the middle class and democracy.

Authoritarian experiences in Latin America during the 1960s, 1970s and 1980s do not offer convincing support for the hypothesis that the middle class is always and everywhere a staunch guardian of democracy. In fact, authoritarian regimes in Brazil, Argentina, Chile and Uruguay had different degrees of support from the middle classes, apparently pleased that military rule was 'restoring order' in societies affected by social movements pushing for a redistribution of economic power and democratisation of society. In turn, the rise of fascism in Europe in the 1920s and 1930s teaches a similar lesson.

The regimes of Mussolini in Italy and Hitler in Germany were apparently popular among the middle classes

frightened by the economic insecurity, unemployment and crises and the rise of left-wing political movements.<sup>3</sup>

Tracing the effects of neoliberalism and globalisation on the middle class is a complex process. Issues of definition make it difficult to gauge the actual size of the middle class and map the effects of economic and social policies on this segment of the population. However, it is apparent that the concentration of incomes among rich economic elites, the higher cost of education, the fragility of traditional middle-class jobs and the rise of indebtedness have adversely affected the middle class throughout this neoliberal period.

Moreover, idealisations of the middle class as a source of entrepreneurship and a model of democratic behaviour need to be evaluated with caution in light of historical and contemporary evidence on the subject. ■

**Banerjee, A.V. and E. Duflo (2008).** 'What is Middle Class about the Middle Class around the World?', *The Journal of Economic Perspectives*, Spring, Vol. 22, No. 2: 3–28.

**Frieden, J. (2006).** *Global Capitalism. Its fall and Rise in the Twentieth Century*. New York and London, W.W. Norton and Company.

**Gilbert, D. (2008).** *The American Class Structure in an Age of Growing Inequality*, 7th Edition. Los Angeles, London, New Delhi and Singapore, Pine Forge Press.

**Hobsbawm, E. (2002).** *Interesting Times, A Twentieth Century Life*. London, Allen Lane.

**Solimano, A. (2009).** 'Stylized Facts on the Middle Class and the development Process', in A. Estache and D. Leipziger (eds), *Stuck in the Middle. Is Fiscal Policy Failing the Middle Class?*. Washington DC, Brookings Institution Press.

2. In an empirical study of 13 low- to middle-income countries, Banerjee and Duflo (2008) provide evidence of the pervasiveness of the entrepreneur by necessity in the developing world.

The typical middle-class entrepreneur in their sample has one employee (in some cases a maximum of three employees), their stores or 'firms' have minimal productive assets such as machinery and equipment, and the activities engaged in display very low levels of technological intensity. The findings of this study are hard to generalise as a depiction of middle-class entrepreneurship in the world economy. Low-income countries with large informal sectors dominate the sample; in turn, the low range definition of middle-class individuals (those earning US\$2–10 per day) is highly likely to include people in poverty and, therefore, capture mostly entrepreneurs by necessity.

3. See Hobsbawm (2002) and Frieden (2006) for good historical accounts of those periods in Europe.



by Luis F. Lopez-Calva,  
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# A New Economic Framework to Analyse the Middle Classes in Latin America

**Not being poor does not graduate people immediately into the middle class. There is a group, which actually represents the majority in Latin America, who are not poor but not middle class yet: the vulnerable.**

**Ideally, one would want to anchor the concept of middle class to a non-arbitrary, welfare-based principle, a particular feature that differentiates this situation from others—much like the measurement of poverty is linked to nutritional status.**

1. This article draws from joint work with Eduardo Ortiz-Juarez, Jamele Rigolini and Florencia Torche, as background research for the Regional World Bank Flagship entitled *Economic Mobility and the Rise of the Latin American Middle Class*, written with Francisco Ferreira, Julian Messina, Jamele Rigolini, Maria Ana Lugo and Renos Vakis (see Ferreira et al., 2013). Samantha Lach provided assistance in the preparation of this article.

2. We are referring here to an 'absolute' notion of middle class (think of the analogy with the concept of poverty). A 'relative' measure, based on the concept of polarisation, is in Cruces et al. (2011).

3. For instance, Blackburn and Bloom (1985) identify the middle class as households with per capita income in the range of 0.60 to 2.25 times the median income. In a different study, Davis and Huston (1992) use a narrower range, between 0.50 and 1.50 times the median. Birdsall et al. (2000) use a range between 0.75 and 1.25.

4. 'Functionings', commonly used in development economics, denote the set of activities and achievements ('beings and doings') that a person is capable of, following Amartya Sen. See Basu and Lopez-Calva (2011).

5. The arbitrariness of this threshold and the robustness analysis is discussed in Lopez-Calva and Ortiz-Juarez (2012).

6. For the upper threshold, the line is established at \$50 dollars a day, leaving as 'upper class' around 2 per cent of the income distribution at the top.

**As Latin America** experienced a decade of economic growth and reductions in inequality, which resulted in an unambiguous improvement in terms of economic mobility, the question arises: Has the region become a 'middle-class society'? Such a question entails a more specific conceptual discussion—namely, what lies between no longer being poor and being a middle-class citizen? Recently, a new way to think about middle classes, from an economic perspective, has been proposed and applied to regional comparisons in Latin America and the Caribbean (Lopez-Calva and Ortiz-Juarez, 2012; Ferreira et al., 2013). According to this framework, an individual becomes middle class when s/he is no longer **vulnerable to poverty**.

Economic security is thus the main **functioning** that lies behind being middle class.<sup>2</sup> As a result of the classification of income groups under this notion, **not being poor** does not graduate people immediately into the middle class. There is a group, which actually represents the majority in Latin America, who are not poor but not middle class yet: the vulnerable.

## What is 'middle' about being middle class: an economic perspective

The best-known modern literature about middle class is in Sociology. The two giants on whose shoulders we stand are Karl Marx and Max Weber. Weber conceived class as individuals with common 'life chances' which determine their opportunities for income in the market. The middle class is then defined as those individuals owning skills and education.

The Marxist tradition viewed class in terms of common structural positions within the organisation of production, where class stratification was based on

the concept of exploitation and property relations. The middle class is identified as small independent businessmen and professionals, who—along the same lines as in the Weberian view—acquire skills, knowledge or education, relying only on themselves and their resources to achieve a better economic position.

John Goldthorpe would later propose an empirically well-defined way to analyse social stratification, referring to the middle class as those who look towards the future and thus see savings and education as essential.

A common feature is that the middle class is associated with the accumulation of human capital and savings.

In economics, however, the middle class is usually defined in terms of income, either in relative or absolute terms. In the first case, economists look at the individuals in a certain range of a society's income distribution—for example, around the median of the income distribution.<sup>3</sup> When comparing middle classes across countries, however, these statistical definitions face the problem of different median incomes in each country, and, therefore, different middle classes.

One can also employ a 'pure income definition' to measure the middle class, simply as a certain share of the income distribution—say, the middle quintile. The size of the middle class will be always fixed in this case; however, the relevance of these measures is that they allow the share of total income appropriated by this group to be quantified.

Absolute economic definitions identify the middle class as those households with income or consumption in a specific and comparable range (i.e. purchasing

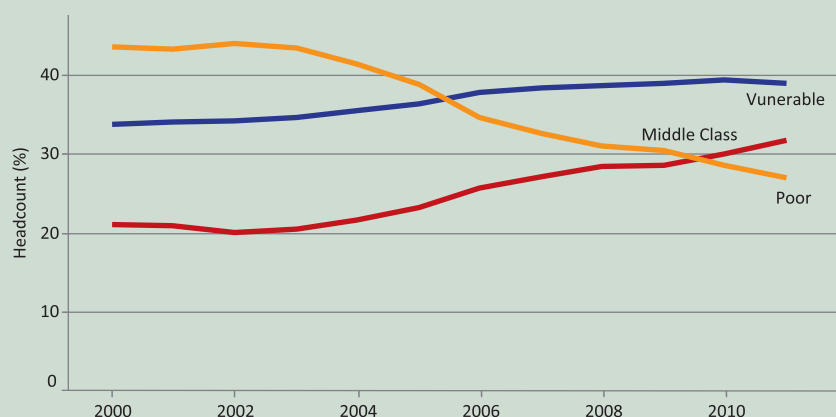
power parity international dollars). The fundamental question is, of course, how to define such an absolute level. Well-known examples are the papers by Banerjee and Duflo (2008), who define the middle class as those households living with a per capita expenditure of \$2–10 a day, or Ravallion (2010), who proposed the concept of the ‘developing world’s middle class,’ defined as those households with per capita consumption at or above the median poverty line for 70 developing countries (\$2 a day per person), and at or below the US poverty line (\$13 a day per person). These papers use poverty lines as lower thresholds to define the middle class, which lacks any serious conceptual foundation.

Ideally, one would want to anchor the concept of middle class to a non-arbitrary, welfare-based principle, a particular feature that differentiates this situation from others—much like the measurement of poverty is linked to nutritional status. When economists measure extreme poverty, such a notion is based on the definition of a **functioning**—namely, ‘being protected from undernourishment’.<sup>4</sup>

The extreme poverty line is defined by the amount of income that ensures such functioning for all individuals in a household. Along these lines, Lopez-Calva and Ortiz-Juarez (2012) propose a threshold based on absolute income to define the middle class in Latin America, by exploring the link between income and vulnerability to poverty. The basis of the concept is straightforward. Analogous to the case in measuring extreme poverty, the ‘middle-class functioning’ here refers to ‘being protected from falling into poverty’.

The proposed concept thus defines **economic security** as the condition that defines a person as middle class. Individuals who are above the poverty line *and* who have a low risk of falling into poverty may have characteristics in terms of risk-taking capabilities, investment decisions, consumption patterns and the like that differ from the characteristics of those individuals who are just above the poverty line.

**Figure 1**  
Latin American and Caribbean Trends in Middle Class, Vulnerable and Poor, 2000–2019 (Percentage of Total Population)



Source: World Bank (2013).

In addition to anchoring the concept to a solid conceptual basis, a characterisation of the middle class must satisfy the following important conditions to be economically relevant. On the one hand, such a definition must clearly define the **direction** of changes. That is to say, it must be able to establish whether there is upward or downward mobility with respect to a welfare-related index. On the other, a useful characterisation of the middle class should be able to provide relevant insights for policymaking. To make this concept operational, the method follows three steps:

1. Construct actual transition matrices for poverty status and mobility in and out, for countries where panel data are available;
2. Run a probability model for falling into or remaining in poverty over time, assigning each household an estimated probability, which becomes its vulnerability index, as a function of its characteristics; and
3. Estimate an income model, using the same characteristics as in the previous step, to assign an estimated income (or potential income) to each household.

Finally, the estimated probabilities are mapped to income, and a threshold of 10 per cent probability is defined as the level below which people are **not** vulnerable to poverty.<sup>5</sup>

### Is Latin America a middle-class society?

Applying the concept described above, the research suggests that being middle class in Latin America consists of living with a **per capita income of \$10–50 a day, at 2005 in purchasing power parity terms**.<sup>6</sup> Using this approach, Ferreira et al. (2012) and World Bank (2013) analyse the evolution and characteristics of the middle class in Latin America and the Caribbean in the last 15 years (see Figure 1).

For the first time, in 2011 the number of middle-class people exceeded the number of poor people. Yet, before letting banners fly, some important caveats are in order. Being a member of the middle class in the region continues to be, in relative terms, a privileged position.

The poor and vulnerable classes comprise approximately two thirds of the region’s population. Moreover, notwithstanding the positive trends, Latin America as a region has not yet become a ‘middle-class society’. While a large share of people have emerged from poverty, they have not yet joined the middle class.

Indeed, the proportion of the population that is vulnerable is so substantial that it calls to attention the degree to which these individuals are effectively protected by social protection policies. Living above the poverty line, these

*It may be the case that middle classes—in their pursuit of maintaining economic security—simply support policies that benefit them, while opting out of the social contract and demanding social services in privatised markets whenever they can afford it.*

*It could, alternatively, very well be that pragmatism, rather than a specific value structure, characterises the middle classes.*

households are not eligible for social assistance programmes that target poor households.

At the same time, not yet in the middle, they may not be able to take full advantage of the fiscal instruments designed for the middle class. Given both the magnitude of the vulnerable and the high risk of falling back into poverty faced by these households, it is clear that active policies must continue to play an important role in the region's agenda, with particular emphasis on asset accumulation—including human capital—and income generation (productive inclusion). The quality of service provision thus becomes crucial.

#### **The middle class and democratic values**

There are well-known theories suggesting that middle classes play a stabilising role in the social system. A widely cited quote from Aristotle's *Politics* refers exactly to that function, stating that the middle class stands, and mediates, between the rich and the poor, thus establishing the foundations for democratic development. Following this line of thinking, recent economic literature has bestowed on the middle classes the title of 'the backbone of democracy'.

There are different elements to the discussion that link middle classes to democratic development. The one derived from the Aristotelian view is that they are conservative, tend to avoid abrupt change and reject conflict. But that is not enough to sustain that middle classes are necessarily good for democracy. A second, fundamental issue is whether 'being middle class' is *per se* associated with the adoption of a value structure that is conducive to political development.

The middle classes are supposed to create conditions for social change, but change that takes place through the existing institutional structure, respecting democratic rules and refraining from violent means.

It could, alternatively, very well be that pragmatism, rather than a specific value structure, characterises the middle classes in their pursuit of economic security.

Lopez-Calva, Rigolini and Torche (2012) look at the associations between middle class and values, using data from the Ecosocial survey. Aggregating **values** questions into categories such as 'support for democracy', 'justification of violence', 'trust' and 'political participation' (11 categories in total), results show that, while income matters, there is no strong evidence of a middle-class particularism. The relationship between income and political orientations remains, for the most part, monotonic.

The authors find little evidence of specific middle-class values that mediate between the more extreme values of the lower and upper classes. As discussed in Ferreira et al. (2012), this pragmatism may lead to a trap of weak (or fragmented) social contracts. It may be the case that middle classes—in their pursuit of maintaining economic security—simply support policies that benefit them, while opting out of the social contract and demanding social services in privatised markets whenever they can afford it (some examples could be security, education, health or energy). Such dynamics could weaken the social contract even further without compensating for the lack of voice of poorer segments of the population—left by themselves with low-quality public services.

The distribution of income in the Latin America has improved in the last decade. This has resulted in an impressive movement of people out of poverty, which represents a positive trend.

However, vulnerability to poverty remains a serious concern for the majority. This article has referred to a new economic approach to analysing middle class, based on the notion of vulnerability to poverty (or, in positive terms, economic security). Using this definition to classify economic groups in the region, it is clear that for those in poverty and for those not yet securely in the middle class, social policies will continue to play an important role in the foreseeable future.

The fact that such a large proportion of people who escaped poverty did not join the ranks of the middle class points to a

central policy question: how well protected are the vulnerable? Indeed, reversals can result from unexpected change in conditions, and, even more important, specific households can go back into poverty due to health- or employment-related shocks, in the absence of safety nets and well-developed insurance and credit markets.

Most policy action should focus precisely on how to bring those vulnerable groups to a more resilient state so they can eventually join the ranks of the middle class. In terms of the role of the middle class to strengthen the social contract, evidence points to a potential vicious cycle of low quality of public services, weak fiscal capacity and a process of fragmentation of the social contract, provided that middle classes are rather pragmatic and will opt out of the social contract if services are not good enough to benefit them. Thus, policies to reduce

vulnerability and strengthen the middle class will be fundamental in the years to come, but so will the policies that improve the quality of service provision, which will attract the middle classes and create the positive dynamics Aristotle referred to a few centuries ago. ■

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# The New Brazilian Middle Class and the Bright Side of the Poor

by Marcelo Neri, Secretariat of Strategic Affairs (SAE) and Institute for Applied Economic Research (IPEA)<sup>1</sup>

The 'new middle class' was the nickname given to the Brazilian economic class C, when the Centre for Social Policies of the Getúlio Vargas Foundation (CPS/FGV) started monitoring the evolution of Brazilian economic classes (A, B, C, D and E), where A is considered to be the richest class, and E the poorest one. Previously, referring to someone as class C was considered somewhat derogatory, implying that someone was far worse-off than those of class A and B, for example.

The term 'new middle class' also differs in spirit from the term 'nouveau riche', which is sometimes used to refer to such a class but which above all discriminates against people's origin.

The 'new middle class' evokes positive feelings about people who have and are continuing to advance socio-economically as well as have achieved a

new standard of living. More important than where you have come from—or are—is where you plan to go. Members of the new middle class are not defined by their possessions but, rather, by their will (determination), character and decisions associated with their future.

More than an increased capacity and propensity to consume, what characterises the Brazilian new middle class is its productive capacity.

The new middle class strives to build its future on solid foundations that sustain its new standard of living, not just as a new consumer class but, rather, as individuals who are fully (formally) employed and whom have experienced income growth via higher wages. It is, however, important to stress that such growth has not occurred through entrepreneurship but through channels of formal employment.

**Members of the new middle class are not defined by their possessions but, rather, by their will (determination), character and decisions associated with their future.**

**The 'new middle class' evokes positive feelings about people who have and are continuing to advance socio-economically as well as have achieved a new standard of living.**

1. Acting Minister of SAE, President of IPEA and Professor at EPGE/FGV.

This article is based on Neri (2011).

2. This expression was created in the 1970's by Edmar Bacha, a Brazilian economist, to illustrate Brazil's inequalities and polarization as a country that has a Belgium side and an Indian side.

3. Another approach uses longitudinal data to detail individual income dynamics with regard to shocks.



There is a chronic deficiency in the public policies that support productive activities in Brazil, from professional training courses to popular productive credit.

The key instrument to release the productive potential of Brazilian workers would be regular education, which, albeit still at a low levels, has improved in quantity, quality (54<sup>th</sup> among 67 countries which apply the Programme for International Student Assessment—PISA—but among the top five with highest growth) and priority both of the population (rising from seventh to second in the list of Brazilians' concerns) and of the elites.

### Measurement

Heuristically, we can borrow the idea of a *Belindia*,<sup>2</sup> a fictitious country formed by the merger of Belgium and India, to better illustrate the location of the new middle class (Class C). It would be bound by the borders with India (the poorest economic classes: E and D) and Belgium (richest economic classes: A and B).

The focus of this analysis is the flow of migration between these two sides of Brazil. In this sense, this middle class is middle or the mean class in statistical terms. Thus, the 'new middle class' comprises initially those above the poorer half of the income distribution and a little below the richest 10 per cent after the turn of the century.

This definition of income brackets is derived from a choice grid that minimises income inequality, as measured by the Theil-T index, within groups. It is consistent with the polarisation approach proposed by Esteban, Gradin and Ray (2007) that endogenously creates income brackets from the income distribution found in practice. The chosen cut-off points are those that best distinguish the groups, to minimise internal differences within income groups and, as a result, maximise differences between these groups.

Following Esteban et al., income group brackets are calculated for three segments that maximise the extended polarisation criterion adopted. Income cut-off points of the different economic classes are calculated for a specific year and their real values kept constant to measure absolute changes of the class

sizes—the purpose being to capture the number of people crossing different income brackets over time.

Owning two cars and two dogs is not the idea of the Brazilian middle class addressed here. If the definition of the American middle class were applied, based on the distribution converted to the Brazilian cost of living, much higher income brackets would emerge as relevant. Brazilian income distribution is relatively close to the world income distribution. The Brazilian GDP per capita (in purchasing power parity) is 91 per cent of the global average, and the Brazilian Gini Index is also close to the global Gini figure. As a result of the resemblance between Brazilian and world income distributions, the search for an income-based Brazilian middle class also delivers the capability to begin to explore a world middle class.

*The new middle class builds its future on solid foundations that will sustain its newly acquired living standards. This is what can be considered to be the bright side of the poor.*

Between 2003 and 2011, 40 million people (the population of Argentina) joined the middle class in Brazil. Southern Brazilian cities have the highest relative membership of classes A, B and C. Niterói is found to be the city with the highest percentages of class A and B.

These newcomers to both classes A and B—namely, people who have ascended to the elite—will attract attention in the next few years similar to that given to the new middle class as of late.

An income-based view of the new middle class is only the beginning. Combined with a subjective approach to measure people's expectations and attitudes, a structural approach that takes into account the roles played by human, physical and social assets is also of importance. In all cases, income is the choice of numeraire, and is central in regards to where all dimensions are analysed and projected.

The permanent income approach is then applied by converting stocks of assets into income flows. The current versus permanent income dichotomy allows sustainability aspects of income distribution to be gauged. After classifying people into income brackets, different perceptions, attitudes and expectations must be incorporated into the analysis.

### Consumers versus producers

Concrete relations between income flows and asset stocks opened on two major fronts: those of the producer and the consumer. The producer side is based on labour market dynamics—namely, employment, including entrepreneurship. The other side is informed by the literature on both consumption and savings.

The wealth of data available from the Brazilian household surveys on asset ownership was organized under two perspectives—that of the consumer and the producer. Furthermore, the income generation capacity of Brazilians was witnessed to have increased by 31.2 per cent from 2003 to 2009—38 per cent faster than their potential to consume, which increased by 22.59 per cent over the same time period, according to synthetic indices designed to evaluate such indicators.

It is also possible to investigate the importance of different income sources for the advancement of social indicators in the country. Between 2003 and 2009 there was a significant increase in average income from social programmes and pensions linked to the minimum wage received by Brazilians. Throughout this period, the average wage increased by 4.61 per cent per year, which is similar to the growth of 4.72 per cent per year of the average total income.

In terms of contribution to the growth of average total income, wages were responsible for 75.3 per cent of the increase, since they correspond to 76 per cent of the average income of Brazilians.

This provides the basis for sustainability of a certain quality of life, in addition to social assistance/security transfers.<sup>3</sup> The new middle class builds its future on solid foundations that will sustain



its newly acquired living standards. This is what can be considered to be the bright side of the poor.

The Brazilian belief that life will get better helps to explain what databases and field visits have shown about these new emerging classes. According to Gallup

World Polls, Brazil ranked as the nation with the highest future life satisfaction seven times in a row. More than the gold, forests and wood that have provided the country with its national colours and its name, the greatest national wealth is the sparkle reflected in the eyes of the Brazilian people. ■

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# Middle Class Expansion and the Stages of the Transformation Process of Income Distribution

by Ricardo Paes de Barros and Diana Grosner,  
Secretariat of Strategic Affairs (SAE)

**Finding ways to** document the evolution of income distributions has been an ongoing challenge. In this regard, we present an alternative that is based on the division of the population into three classes (Lower, Middle and Upper), followed by monitoring the relative size of these classes. As we try to illustrate, this is a particularly concise and informative way to monitor, describe and understand the evolution of income distribution.

The three classes (Lower, Middle and Upper) can be ordered in six ways, according to their size.<sup>1</sup> Moreover, considering that in each case the highest of the classes may or may not hold the majority (i.e. more than 50 per cent of the population), we see—due to the relative size of the three classes that constitute it—that an income distribution can be found in 12 different states (see states I to XII in Figure 1). We denote the sizes of the Lower, Middle and Upper classes as B, M and A, respectively.

This approach is particularly useful to describe the process of transition from a poor society, where everyone belongs to the Lower class ( $B = 100$  per cent), to a wealthier society, where everyone belongs to the Upper class ( $A = 100$  per cent). In principle, all 12 states could be visited throughout such a transition. However, as a rule, while the larger of the classes is the Lower, the Upper class is never larger than the Middle class.

That means that there is rarely a situation in which  $M < A < B$ —states XI and XII in Figure 1. Likewise, the Lower class tends to never be greater than the Middle class when the larger of the classes is the Upper class. That is,  $M < B < A$  is rare—states IX and X in Figure 1. For this reason, when transitioning from a situation in which everyone belongs to the Lower class to one in which everyone belongs to the Upper class, a society typically goes through only eight of the 12 possible states (see Figure 2).

**State I:** In a society initially very poor, the majority of the population belongs to the Lower class, with a small portion in the Middle class and an even smaller portion in the Upper class. In this case,  $B > 50$  per cent, and  $A < M < B$  (see Figures 1 and 2).

**State II:** As the society's income grows, the Lower class shrinks, and the Higher class expands. However, the size of the Middle class will depend on the number of people who have entered and left the group. When more people enter the Middle class than leave it, there is a greater reduction in the size of the Lower class than an expansion of the Upper class. This process continues, then, with a reduction in the size of the Lower class until it no longer encompasses the vast majority of the population. In fact, the endpoint of the second stage is one where none of the classes holds a majority

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**At some point, the size of the Middle class will reach a maximum size.**

**The evolution of the relative size of income classes can be an important tool to describe, monitor and understand the trajectory of an income distribution.**

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1. After all, there are three possible alternatives for the largest among the classes, and, once the largest one is defined, there are two options for the smallest, with a single alternative remaining for the intermediate-sized class.

of the population (over 50 per cent), but the Lower class remains the largest, and the Upper class, the smallest. In this case, we still witness  $A < M < B$ , but rather where  $B < 50$  per cent (see Figures 1 and 2).

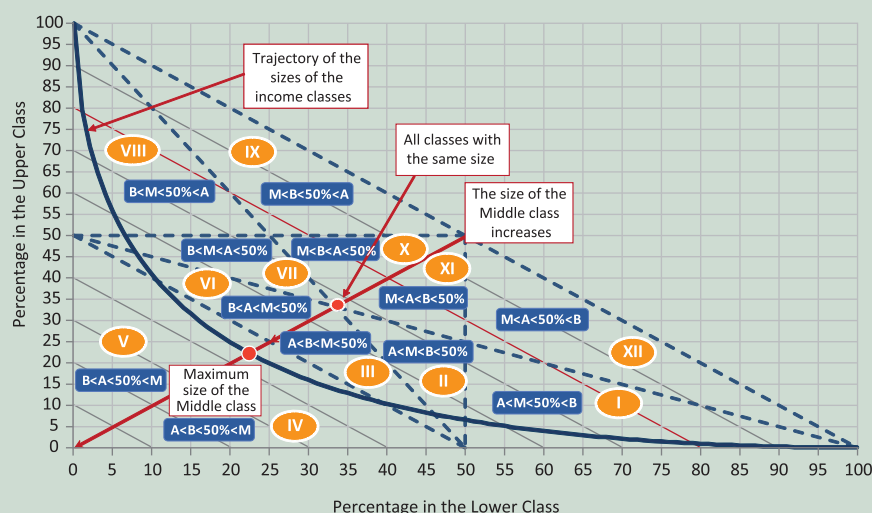
**State III:** With another round of economic growth, the reduction of the Lower class and the expansion of the Middle class continue. In the third stage, so many people migrate from the Lower class to the Middle class that the size of the Middle class exceeds the Lower class.

The Lower class remains larger than the Upper class, and, while the Middle class has become the largest of the three, it does not contain most of the population. In this case, we witness  $A < B < M$ , but also where  $M < 50$  per cent (see Figures 1 and 2).

**State IV:** The growth process continues, taking more people from the Lower class to the Middle class, until the majority of the population finally belongs to the Middle class.

Due to the cumulative expansion of the Middle class in all previous stages, the majority of the population now belongs to this class. In this stage, as in all previous stages, the Upper class continues to grow, remaining, however, the smallest of the three. In this case, we still have  $A < B < M$ , but now witness  $M > 50$  per cent (see Figures 1 and 2).

**Figure 1**  
Evolution of the Distribution by Income Classes



Source: Author's elaboration.

**State V:** In this stage, the movements at the upper end of the income distribution begin to gain prominence. As the growth process continues to reduce the Lower class and expand the Upper class, for the first time the Upper class becomes larger than the Lower class. At this stage, the Middle class includes the majority of the population ( $M > 50$  per cent), and the Lower class becomes the smallest of the three classes. Any new growth from this

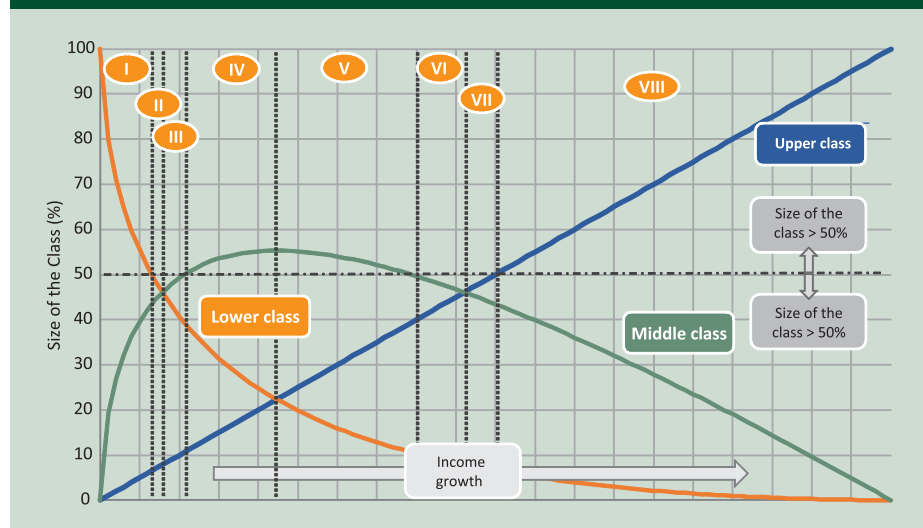
point forth brings with it an increase in the Upper class, to a greater extent than the rate of reduction of the Lower class. That means there would be more people leaving than entering the Middle class, which marks the beginning of the contraction of the Middle class. In this case, we have  $B < A < M$ , but we still witness  $M > 50$  per cent (see Figures 1 and 2).

**State VI:** The contraction of the Middle class means that it no longer represents the majority of the population. At this point, the Lower class remains the smallest of the classes, and the Upper class takes on an intermediate size. In this case, we still have  $B < A < M$ , but now  $M < 50$  per cent (see Figures 1 and 2).

**State VII:** If the growth process continues, the decline of the Middle class, accompanied by a continued expansion of the Upper class, leads to the Upper class becoming the largest of the three classes, without amassing the majority of the population. In this case, we have  $B < M < A$ , and  $A < 50$  per cent (see Figures 1 and 2).

**State VIII:** Finally, the continued expansion of the Upper class, with a retraction of the Middle and Lower classes, leads to a configuration where most of the population has joined the Upper class.

**Figure 2**  
Evolution of the Sizes of the Income Classes in a Process of Continuous Growth



Source: Author's elaboration.

In this case, we still have  $B < M < A$ , but now  $A > 50$  per cent (see Figures 1 and 2).

As noted, throughout the process of continuous growth, the Lower class always contracts, and the Upper class always expands.

The size of the Middle class, however, depends on the relative magnitude of these two phenomena. Since the Middle class is fed by the contractions of the Lower class and feeds into the expansion of the Upper class, the Middle class will expand (contract) whenever the contraction of the Lower class is higher (lower) than the expansion of the Upper class. As a rule, the variation in the size of a class is related to its size.

Therefore, expansions in the Upper class tend to surpass reductions in the Lower class only when the Upper class becomes larger than the Lower class.

In other words, the Middle class tends to grow when  $B > A$ , and tends to shrink otherwise ( $A > B$ ).

From this reasoning, it follows that, at some point, the size of the Middle class will reach a maximum size. In Figure 2, this occurs precisely in the transition from State IV to V. The size of the Middle class at this point depends on the degree of inequality. In a society with low inequality, there will be little coexistence between rich and poor people.

In this case, we ought never to find a situation in which the Lower and Upper classes be of significant sizes at the same time. When inequality is low, the Upper class begins to expand only when the Lower class practically no longer exists.

When the degree of inequality is high, however, the Upper class begins to expand even in the presence of a

significant Lower class. The final result is that when the income is medium, an unequal society must, on the one hand, still have a significant Lower class and, on the other hand, an also significant Upper class. It follows that, in the presence of high inequality, even societies or groups with medium income may have a Middle class which does not exceed half of the population. Indeed, in a society where inequality is very high, the Middle class may never encompass the majority of the population.

In short, as we tried to illustrate, monitoring the evolution of the relative size of income classes can be an important tool to describe, monitor and understand the trajectory of an income distribution. Furthermore, we saw that, in a process of continuous growth of income, contrary to what many might expect, the Middle class does not grow indefinitely. ■

## On Social Classes

### A New Brazilian Working Class

by Marilena Chaui,  
University of Sao Paulo

#### Surprises

If a person who had witnessed the terrible living and working conditions of the Brazilian lower-income classes in the 1950s and 1960s were to spend some time in Europe, that person would most likely be surprised. He or she would see workers driving small cars, going on vacations with their families, shopping at low-price department stores, sending their children to day-care centres, then to public primary and secondary schools, technical schools and even universities; he or she would also see workers and their families entitled to free hospitals and medication, and, of course, they would also be surprised at their ability to own a home.

That was Europe during the Fordist period of industrial capitalism, with assembly lines and mass production of products at low costs, enabling mass consumption. More specifically, that was

Europe under the guidance of Keynesian economic policy, after organised labour struggles had led to the election of leaders of the political left or centre, as well as the emergence of the social welfare state, towards which a considerable amount of public funding was allocated to promote the social rights claimed for—and conquered by—the working class. However, in this context, no one would dream of saying that those European workers had crossed over into the middle class. Interestingly however, this is what is said today of Brazilian workers, after 10 years of counter-neoliberal policies.

#### A new Brazilian working class

Studies, research and analyses<sup>1</sup> show that there has been a profound change in the make-up of Brazilian society, due to:

- Government programmes in the areas of income transfers, social inclusion and poverty eradication;

**There has been a profound change in the make-up of Brazilian society.**

1. Main references: Republic of Brazil (2012a). 'A nova classe média brasileira: desafios que representa para a formulação de políticas públicas', *Boletim da Secretaria de Assuntos Estratégicos da Presidência da República*. Brasília, Secretaria de Assuntos Estratégicos; Republic of Brazil (2012b). 'Comissão para a definição da classe média no Brasil', *Boletim da Secretaria de Assuntos Estratégicos da Presidência da República*. Brasília, Secretaria de Assuntos Estratégicos; Republic of Brazil (2011). 'Indicadores de Iniquidade no Sistema Tributário Nacional', *Relatório de Observação*, No. 2. Brasília, Conselho de Desenvolvimento Econômico e Social; Republic of Brazil (2009). 'Indicadores da Equidade do Sistema Tributário Nacional', *Relatório de Observação*, No. 1. Brasília, Conselho de Desenvolvimento Econômico e Social; Souza, A. and B. Lamounier (2010). *A classe média brasileira. Ambições, valores e projetos de sociedade*. Rio de Janeiro, Elsevier; Souza, J. (2010). *Batalhadores brasileiros. Nova classe média ou nova classe trabalhadora?*. Belo Horizonte, Editora da UFMG; Souza, J. (2009). *A ralé brasileira: quem é e como vive*. Belo Horizonte, Editora da UFMG.

- Economic policies focusing on full employment and raising the minimum wage;
- The upholding of some of the social rights of the working classes;
- Coordination among these programmes and the principle of sustainable development; and
- The first steps taken towards agrarian reform that will enable rural populations to remain in the fields, rather than having to resort to migration to urban centres for economic opportunities.

In general, when utilising the classification schemes of market research institutes and sociology, it is customary to organise Brazilian society as a pyramid, sectioned into classes designated as A, B, C, D and E, using the criteria of income, ownership of real estate and other assets, level of education and type of occupation.

According to these criteria, it was concluded that, between 2003 and 2011, the number of people in classes D and E diminished considerably, from 96.2 million people down to 63.5 million; at the top of the pyramid there was also an expansion of classes A and B, from 13.3 million to 22.5 million people; and finally, the most remarkable event was a truly spectacular expansion in class C, from 65.8 million to 105.4 million people. This expansion has led to the assertion that the Brazilian middle class has grown—or rather, that a new middle class has emerged in the country.

However, there is another way to analyse the division of social classes—by using form of ownership as a criterion. In a capitalist mode of production, the ruling class holds private ownership over the social means of production; the working class is excluded from such means of production, participating in them as a productive force, as owners of labour.

Marx spoke of a *petite bourgeoisie* when referring to a social class that did not reside at one of the two ends of the social divide at the core of the capitalist mode of production. In other words, it stood outside the core of capitalism: it did not own capital or the social means of production, nor did it constitute the

workforce that produced capital; it spanned the so-called liberal professions, the state and business bureaucracies, small land holdings and business.

If such sociological descriptions are abandoned, if the social classes of the capitalist mode of production (despite the use of the term ‘middle class’) are retained, and if the studies drawn upon for this article, and the figures they represent vis-à-vis changes in the size of the three social classes are considered, a few conclusions can be drawn:

- Projects and programmes that transfer income and ensure social and economic rights show that it was the working class that expanded in Brazil—its composition is complex, heterogeneous and not limited to agricultural and industrial workers.
- The use of the services criterion in defining the middle class does not remain the same in the current form of capitalism, for two reasons:
  - a) As that production model was disabled, services were outsourced—these, in turn, are tied to industrial production and also a branch of it; and
  - b) The increase in the number of wage-earning employees in the services sector does not constitute a growing middle class, but a new and heterogeneous working class, defined by differences in education and by skills and competencies determined by technoscience.
- The liberal profession criterion is also problematic in defining the middle class, since the new form of capital led to the advent of companies operating in the fields of health, law, education, communication, food etc., in such a way that its components can be categorised as private owners and wage-earning employees and as such should be categorised as part of the working class.
- Small family holdings are also not a valid criterion for defining the Brazilian middle class, because the

neoliberal economy—when dismantling the Fordist model and outsourcing and fragmenting productive work into thousands of micro-businesses dependent on transnational capital—has turned these small entrepreneurs into a productive force, which, together with individual service providers, is managed and dominated by multinational oligopolies.

What remains for the middle class, therefore, are state and corporate bureaucracies, public services, small land holdings and businesses not affiliated with any of the major transnational oligopolies. In Brazil, the middle class has benefited from the economic policies of the last 10 years; it has grown and prospered.

Thus, returning to the example of the Brazilian traveller in Europe in the 1950s and 1960s, it could be said that the new Brazilian working class is finally starting to gain access to social rights and become an active participant in mass consumption. The immediate claim made about the emergence of a new middle class is less dangerous to the established order than a socially and politically antagonistic working class.

At the same time, however, when it is referred to as a ‘new’ working class, the novelty lies not only in the effects of social and economic policies but also in the elements brought about by neoliberalism. Little is known, thus far, about this new working class.

### **Middle class: how to untie the knot?**

A social class is not a fixed datum, defined only by economic determinations; rather, it is a social, political, moral and cultural subject that acts, constitutes and interprets itself and is transformed through class struggles.

It is praxis, as English working class historian E. P. Thompson wrote: a historical construct. Now, if therein lies the transforming possibilities of the working class, therein also lies the possibility of concealment of its own self, and the risk of ideological absorption by the ruling class. The first sign of such a risk is, indeed, the spreading of the

notion that there is a new middle class in Brazil. Referring to the middle class also raises a very important political issue.

Standing outside the economic core that defines capitalism, the middle class is also left outside the core of political power. That puts it in a position where it is defined less by its economic standing and more by its ideological position, which tends to be contradictory.

Due to its position within the social system, the middle class tends to be fragmented, rarely possessing a common unifying interest. However, certain sectors tend towards the left—as a rule, towards the extreme left and voluntarism.

This configuration is counterbalanced by another, in its stark opposition. Devoid of a solid and clear economic and social framework, the middle class tends to feed into the idea of order and security because, due to fragmentation and instability, its imagination is populated by both a dream and by a nightmare: the dream is to become a part of the ruling class; the nightmare is to become the proletariat. Security is needed to ensure that the dream comes true and that the nightmare does not.

This makes the middle class ideologically conservative and reactionary, and in practice making its social and political role to ensure the ideological hegemony of the ruling class.

It should also be noted that the Brazilian middle class, in addition to possessing the aforementioned features, is also determined by the authoritarian structure of Brazilian society. In fact, retaining the marks of a colonial slavery-based society, Brazilian society is characterised by the predominance of the private over the public sphere—it is centred on family hierarchy and strongly hierarchical in all its aspects.

Differences and asymmetries are always turned into inequalities that reinforce the command–obedience relationship, and inequalities are naturalised. The social division of classes is over-determined by the polarisation between neediness (of lower-income classes) and privilege (of the ruling class).

This sharp polarisation is reinforced by the adoption of neoliberal economics. Since neediness is always private, it is distinguished from interest, which may be common, and from rights, which are always universal. Since privilege is always private, it cannot be bundled into a common interest and can never become a right, because, if it did, it would no longer be a privilege.

One can understand, therefore, how difficult it is to establish a democracy, defined by the creation of new rights by society and its assurance by the State.

A constitutive part of Brazilian society, the ideology of the middle class not only embodies and propagates the authoritarian forms of social relations but also embodies and propagates the naturalisation and positive valuation of socio-economic fragmentation and dispersion, brought about by neoliberal economics and ideologically defended by the encouragement of aggressive competitive individualism and success at any cost, by astutely handling market procedures.

Well, as much as Brazilian economic and social policies may have advanced democracy, the conditions imposed by neoliberal economics have led to the dissemination, throughout society, of the ideology of market rationality and competence as competition and promise of success.

Since the new Brazilian working class was formed within that particular moment in capitalism—marked by the fragmentation and dispersal of productive labour, outsourcing, precarious and informal employment, perceived as services provided by independent individuals that interact with other independent individuals in the goods and services market—it becomes prone to adhere to the competitive and aggressive individualism spread by the middle class. And it also tends to believe it is part of a new Brazilian middle class.

This belief is reinforced by its new-found access to mass consumerism. In fact, from a symbolic perspective, the middle class replaces the lack of economic and political power that defines it with a lurch towards

*Standing outside the economic core that defines capitalism, the middle class is also left outside the core of political power. That puts it in a position where it is defined less by its economic standing and more by its ideological position, which tends to be contradictory.*

*Its imagination is populated by both a dream and by a nightmare: the dream is to become a part of the ruling class; the nightmare is to become the proletariat. Security is needed to ensure that the dream comes true and that the nightmare does not.*



either leftist voluntarism or towards the right, through the pursuit of prestige and prestige symbols, such as diplomas and titles in liberal professions and the consumption of services and objects that convey authority, wealth, abundance, social ascension—large homes in ‘upscale neighbourhoods’, foreign cars, designer clothes etc.

In other words, consumption is seen as a social ascent towards the ruling class, and as an unbridgeable gap between it and the working class. When the working class, in turn, gains access to mass consumption, it tends to take this idea as a fact—and adhere to it.

If the new Brazilian working class is surrounded on all sides by neoliberal values and symbols disseminated by the middle class, due to the

current reality of its composition, how can this knot be untied?

Whereas democratic politics corresponds to a **democratic society**, and whereas society in Brazil is authoritarian, hierarchical, vertical, oligarchic, polarised between neediness and privilege, democratic politics can only be advanced if this social structure is challenged.

The idea of social inclusion is not enough to undo this polarisation. It can only be addressed if privilege is confronted by four major political actions: tax reform, to rectify unjust income concentrations and to encourage the state to move from income transfer policies to income distribution and redistribution policies; political reform, to add a republican dimension to public institutions; social reform, to consolidate

the welfare state as a state policy, not just a government programme; and cultural enfranchisement policy capable of dismantling authoritarian ideas and breaking the monopoly of the ruling class over symbolic goods and their distribution to—and retention by—the middle class.

But state action can only go so far. The remainder of what it takes to build a democratic society can only be the praxis of the working class; as such, it is critical—like so many times throughout history and more specifically in Brazil (from 1970–1990)—for the working class itself to find, despite the adversities imposed by the capitalist mode of production, new ways to organise and create forms both of resistance and autonomous expression—to be the master of its own destiny. ■

## The ‘New Middle Class’ or the ‘New Working Class’? Who are These New Brazilian ‘Fighters’?

*by Jessé Souza, Federal University of Juiz de Fora<sup>1</sup>*

**The core of this concept suffers from all the ‘economic’ limitations, as it only takes ‘economic capital’ into account and believes it is sufficient to fully describe and understand social reality. Nothing could be more misleading.**

**It is cultural capital—not economic capital considered unilaterally—that forms the basis of the differential construction of individuals through family socialisations specific to each social class.**

**Brazil’s most** important social phenomenon in recent decades has been named incorrectly, both by universities and by the media, as the ‘new middle class’. To define this group, the ‘average income’ was used as an indicator of what we call class C, our ‘new middle class’. The core of this concept suffers from all the ‘economic’ limitations, as it only takes ‘economic capital’ into account and believes it is sufficient to fully describe and understand social reality. Nothing could be more misleading.

Why are analyses superficial, and why do they mistakenly focus solely on economic aspects? Mostly, this stems from ignoring the fact that, when reproducing, capitalism requires both economic capital and ‘knowledge’. Without these, its role in the market and in the State would be negligible.

The type of capital required to incorporate knowledge is what Pierre Bourdieu (1973) calls “cultural capital”.

Unlike economic capital, cultural capital needs to ‘incorporate’ its main dimension—not limited to what school titles objectify—meaning, literally, that it should ‘take corporal shape’, an automatic reflex and set of psychological, emotional and cognitive dispositions for behaviour.

This learning process takes place at an early age in one’s household. Since it is not necessarily mediated by words but, rather, by affective stimuli and examples set by parents or significant others, this fundamental learning process is ‘invisible’ and naturalised. But it is cultural capital—not economic capital considered unilaterally—that forms the basis of the differential construction of individuals through family socialisations specific to each social class. Thus, without a ‘prior socialisation’ study to explain the incorporation of a certain specific type of cultural capital, one must necessarily assume that everyone is ‘the same’, a ‘homo economicus’ who always reacts in the same manner, a ‘generic subject’—

1. Professor of the Sociology Department of the Federal University of Juiz de Fora, Brazil and Director of the Centre of Inequality Research (CEPEDES).

the typical subject of classical liberalism—with no past, no prior socialisation and, therefore, no class. As such, economism is politically conservative and scientifically superficial, since it covers the entire social process that produces differently equipped individuals for social competition.

Having empirically studied the social class labelled ‘the fighters’ in various Brazilian regions for 18 months, between 2008 and 2009, the conclusion emerged that it was, in fact, a “new and precarious working class” (Souza et al., 2010).

In Brazil’s contemporary social context, this is considered to be an intermediate class: there would be a class ‘above’ it the ‘true middle class’ (i.e. a pervasively privileged class)—and another class ‘below’ it—the ‘socially excluded’, which are provocatively referred to as the ‘Brazilian plebs’ (*ralé brasileira*) in another empirical study (Souza et al., 2009), to draw attention to their state of abandonment. Therefore, the actual social slot occupied by this class can be best understood by comparing it to its ‘upper’ and ‘lower’ constraints.

The ‘new precarious working class’ is not truly a middle class, as it does not enjoy privileged access to a scarce resource of utmost importance: cultural capital, highly valued in its many forms. Be it in the form of ‘technical’ cultural capital—made up, for example, of the vast number of lawyers, engineers, administrators and economists—or in the form of the ‘literary’ cultural capital consisting of teachers, journalists and advertisers, this kind of knowledge is essential to reproduce and legitimise both the market and the state.

Consequently, both the wages and the social prestige linked to these types of work—and the living conditions they enable—are considerable.

The ‘fighters’ lead quite different lives. Their lives lack the ‘birth privileges’ that characterise the middle and upper classes. ‘Birth privileges’ do not just refer to inherited family money in the upper classes; such privileges also include the most valuable resource available to the middle class: ‘time’. After all, it takes a lot

of free time to incorporate any form of valuable technical, scientific or philosophical-literary knowledge. In the overwhelming majority of cases, the ‘fighters’ need to start working at an early age and often attend low-quality public schools. As the fighters lack both the highly valued cultural capital of the middle class and the economic capital of the upper classes, they make up for it by making extraordinary personal efforts, working double shifts and enduring all kinds of labour exploitation.

This is the typical life of the working classes—hence the working hypothesis developed, which denies and criticises the concept of a ‘new middle class’.

The main difference with respect to the socially excluded and abandoned is, in turn, the establishment of ‘coordinated hard work ethics’. After all, simply ‘wanting’ to work is not enough—in any walk of life. One must also ‘be able’ to work—i.e. one must ‘incorporate’ (literally ‘take corporal shape’, pre-reflexively and automatically) the emotional and moral assumptions of productive labour in a competitive market.

As it stands, capitalism sees the increasing incorporation of different types of knowledge and cultural capital as the ‘entryway’ into any of its competitive sectors. For a host of different reasons, the ‘plebs’ lack the object of the aforementioned assumptions. As such, they are condemned to physical and menial jobs, providing cheap labour for any type of difficult, unappreciated and heavy activity.

This is not on the horizon for the ‘fighters’. Although they may have come from poor households, they are, nonetheless, comparatively better off than the socially abandoned—the roles of parents and children are mutually understood, and there are concrete examples of perseverance in the family, as well as continuing encouragement to study and work.

This kind of class family socialisation enables the effective incorporation of discipline, self-control and prospective thinking, which are all inherent parts of any learning process, both in school and

in productive labour in a competitive market. Without discipline and self-control, it is impossible to ‘focus’ on academic activities. The ‘plebs’ analysed in previous work on this class repeatedly reported ‘staring’ at the blackboard for hours on end and not learning anything.

This ‘virtue’ is not natural, as is held by the common economic thinking that makes class socialisation invisible and inappropriately assigns the virtues and privileges of the middle class to other classes, only to later blame the victims of social abandonment—as if abandonment and destitution were a choice. On the other hand, without forward thinking—i.e. the view that the future is more important than the present—it is impossible to live one’s life rationally (in economic terms), due to the impossibility of calculating and planning ahead and by being imprisoned by the ‘here and now’.

In the case of these ‘fighters’, the incorporation of a minimum level of emotional and moral economy is hard-won—sometimes it may be acquired through family learning experiences or even belated events, such as various forms of religious socialisation.

Therefore, although this class lacks access to valued forms of cultural capital—a monopoly held by the ‘true’ middle classes—they do not lack willpower, perseverance and confidence in the future, despite all the difficulties they face. In a less favourable context, as we have seen thus far, this ‘army of fighters’ is available and attentive to the slightest possibility of engaging in profitable work and improving their living conditions through, for example, the consumption of previously unattainable durable goods.



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by Miguel Foguel, Institute for Applied  
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# The Brazilian Middle Class and its Vulnerability to Economic Fluctuations

**The middle class definition  
used in this article is based on  
the concept of vulnerability.**

**Belonging to the middle  
class entails some degree of  
economic security or stability.**

1. It is worth pointing out that, as mentioned in the box note, these estimates refer to the probability of having per capita income above the lower threshold of R\$271. Hence, strictly speaking, they measure the probability of being in the middle or upper class.

**Over the last decade**, Latin America has experienced significant reductions in inequality and poverty, as well as a significant expansion of the middle class (Lopez-Calva and Lustig, 2010 and Ferreira et al., 2013). These changes have given rise to a number of new issues referring to poverty, inequality and development in the region. In regards to public policy implications, it becomes fundamental to understand the extent to which such changes are sustainable or, alternatively, susceptible to a reversal, in the case of adverse economic shocks.

This article aims to investigate the extent to which idiosyncratic economic fluctuations affect the size of Brazil's middle class. More specifically, it assesses the extent to which the probability of a

household moving between the middle class and poverty is affected by changes in economic activity as measured by the per capita Gross Domestic Product (GDP).

The middle class definition used in this article is based on the concept of vulnerability. This concept has been widely used within the existing literature (eg, Lopez-Calva and Ortiz-Juarez, 2011, SAE 2012 and Ferreira et al., 2013) and is based on the idea that belonging to the middle class entails some degree of economic security or stability.

One way of identifying this type of security—which will be used as the basis for the income cut-off points used to define the middle class—is when

**Table 1**  
**Coefficient Estimates of the Logit Model**

	Logit Regressions, Dependent Var: Dummy = Middle Class						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Ln(Per Capita State GDP)	0.157 (0.094)*	0.238 (0.102)**	0.159 (0.100)	0.247 (0.111)**	0.121 (0.089)	0.309 (0.094)***	0.218 (0.116)*
Ln(Per Capita State GDP) * Male			0.105 (0.028)***				
Ln(Per Capita State GDP) * Non-White				-0.014 (0.033)			
Ln(Per Capita State GDP) * Education <= 4 Years					0.220 (0.052)***		
Ln(Per Capita State GDP) * Metropolitan						-0.246 (0.078)***	
Dummy = Growth (Positive Var in the State's GDP)							-0.002 (0.046)
Ln(Per Capita State GDP) * Dummy							0.004 (0.020)
<b>Observations</b>	1,610,397	1,610,397	1,610,397	1,610,397	1,610,397	1,610,397	1,610,397
Fixed Effects of State and Year	YES	YES	YES	YES	YES	YES	YES
Demographic Controls	YES	YES	YES	YES	YES	YES	YES
State-Specific Trends (Linear and Quadratic)	YES	YES	YES	YES	YES	YES	YES
Definition of Middle Class	R\$277<PCFI <R\$971				PCFI>R\$277		

Note: Robust standard errors in parentheses, clustered at the state level. PCFI = Per Capita Family Income, set at current 2011 amounts.

individuals have a low probability of being in—or returning to—poverty, from an income perspective.

The concept of vulnerability is able to capture the ability of families to withstand income shocks. In this sense, this exercise not only identifies this resilience, but also tests the very definition of the middle class, based on the concept of vulnerability used in literature—which will be compromised if the middle class, as defined, is highly susceptible to shocks.

Table 1 presents the estimates for the coefficients of the variables of interest as per the methodology described in Box 1, along with their respective standard errors. The first column shows that idiosyncratic shocks are positively related to belonging to the middle class.

The other columns report the results of models where the binary dependent variable is 1 for individuals not just in middle class, but also in higher classes. In general, these regressions reveal three important pieces of information.

First, in columns 1 and 2 we see that the relationship of interest, namely, transitions from poverty to the middle class, is positive: the (net) probability of individuals transitioning into the middle class increases (decreases) when idiosyncratic shocks from aggregate sources are positive (negative).

Second, in columns 3 to 6 we identify heterogeneities: the cycle seems to have a greater impact on households headed by men, by less educated and non-metropolitan heads of household; Column 7 reveals that the sign of the shocks (i.e., whether the variation in the state per capita GDP was positive or negative) does not significantly affect the probability of interest.

Third, but just as important, the magnitude of the impact of shocks on the transition probability is small. One of our interests here is to identify not only whether the middle class is susceptible to adverse shocks, but also to assess the sensitivity of the vulnerability-based concept of middle class to fluctuations that occur in the

## Box 1 Methodology

The data used in this analysis consist of information on the household per capita income, socioeconomic characteristics of the head of household gathered from the National Household Sample Survey (PNAD, Pesquisas Nacionais por Amostra de Domicílio / IBGE) for each year between 1992 and 2009 and the per capita GDP of Brazilian states for the same years. The final sample is a pooled cross-section time-series database of approximately 1.6 million heads of households. The empirical test proposed uses the Logit regression model

$$P(y_{ist} = 1|X) = \frac{e^{X'\beta}}{(1 + e^{X'\beta})},$$

considering  $X'\beta = \vartheta PIB_{st} + \alpha_s + \theta_t + \gamma_s t_{st} + C_{ist}\rho + \varepsilon_{ist}$ , where  $y_{ist}$  is a binary variable that indicates whether the per capita household income of household  $i$ , residing in state  $s$  in year  $t$ , lies between R\$ 277 and R\$ 971—these are the reference figures that define the middle class, according to SAE (2012), set at 2011 values. In our benchmark regressions, however, we will compute this binary variable as 1 if the per capita income of the household is above R\$ 277 (no upper limit). In doing so, the logistic regressions capture the transition probabilities of crossing the middle class' (lower) threshold, thus capturing the concept of vulnerability. The variable of interest is  $GDP_{st}$ , the per capita GDP of state  $s$  in year  $t$ , at 2011 prices. The terms  $\alpha_s$  and  $\theta_t$  are, respectively, state and year fixed-effects. State fixed-effects absorb the influence of fixed characteristics over time and are specific to each state, while time fixed-effects absorb the influence of common state variables that impact states equally over time—for example, aggregate macroeconomic shocks and the political cycle. The term  $\gamma_s t_{st}$  introduces time trends (linear and quadratic) specific to each state, and absorb the impact of long-term trends on income and middle class growth. By introducing this term, together with time fixed-effects, the coefficient of interest  $\vartheta$  captures the isolated effect of variations of  $GDP_{st}$  on the probability of a household crossing the middle class line. Lastly, the term  $C_{ist}$  consists of an array of socioeconomic characteristics of the head of household—gender, race, years of school education, age fixed-effects, whether he/she lives in an urban or metropolitan area, and interactions among personal variables. In order to detect the possibility that idiosyncratic shocks affect the transition probability of interest in a heterogeneous fashion, it is introduced interactions of the  $GDP_{st}$  with some socioeconomic characteristics of heads of households. There is also a regression where the GDP variable interacts with a *dummy*, for positive GDP growth. The idea is to capture the existence of asymmetry in the relationship under analysis. All standard errors are clustered at the state level.

*Note: The methodology used to define who belongs to the middle distributes per capita family income (PCFI) into four major ordered groups: the poor, the vulnerable, the middle class and the upper class (for details, see SAE, 2012). More precisely, we are considering those who move between the two lowest and the two highest segments. It should be noted that transitions might occur among individuals in the two lowest segments and the upper class (i.e., among those with PCFIs lower than R\$ 271 and those with PCFIs higher than R\$ 971) and, in this sense, we are not only focusing on the transition to the middle class.*

economy and are reflected on the income of individuals.

To capture this sensitivity, the following exercise was implemented and reported in Table 2: (i) the size of the middle class was estimated based on the model in column 2 of Table 1 (Column A in Table 2); (ii) the size of the middle class is estimated using the same model, but imposing the absence of positive income shocks (Column B in Table 2). This is done by replacing  $GDP_{st}$  with  $GDP_{st-1'}$  whenever there is growth

between two consecutive years, i.e.  $GDP_{st} > GDP_{st-1'}$ ; and (iii) compare the two estimates.<sup>1</sup> As the last column of Table 2 shows, the negative shocks do not seem able to significantly reduce the probability of belonging to the middle class, in any of the years in the period under study. Therefore, these results show that the concept of vulnerability implicitly used here is, indeed, robust.

The exercise conducted in this paper leads to two conclusions. First, economic fluctuations that affect the income of

individuals are positively related to belonging to the middle class. Second, the magnitude of this effect is small. As a result, the concept of vulnerability used as the basis for defining the middle class in many studies on this subject seems to adequately capture the idea that belonging to the middle class requires that individuals' incomes be highly resilient to economic shocks.

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**Table 2**  
**Predicted Probabilities of Belonging to the Middle Class**

	Middle Class Estimate (PCFI > R\$ 277)	Middle Class Estimate without Positive Shocks	Magnitude
	A	B	(B-A)/A
1992	0,509	0,508	-0,1%
1993	0,514	0,512	-0,4%
1995	0,603	0,602	-0,1%
1996	0,596	0,595	-0,2%
1997	0,602	0,601	-0,2%
1998	0,605	0,604	-0,1%
1999	0,594	0,594	0,0%
2001	0,594	0,592	-0,4%
2002	0,598	0,594	-0,7%
2003	0,581	0,581	-0,1%
2004	0,613	0,611	-0,3%
2005	0,628	0,627	-0,2%
2006	0,672	0,671	-0,2%
2007	0,685	0,682	-0,5%
2008	0,710	0,709	-0,1%
2009	0,723	0,723	-0,1%

Source: Author's elaboration.

# Growth, Inequality and the Middle Class in Post-communist Russia

by Thomas F. Remington,  
Emory University<sup>1</sup>

**The actual growth of the middle class in Russia has been quite slow, while the concentration of income in the top strata has been rapid.**

**Rising income** inequality in Russia has been the subject of high-level attention in recent years. "The differentiation of incomes," Vladimir Putin wrote in *Komsomol'skaia Pravda* in February 2012, "is unacceptable, outrageously high. ...Therefore, the most important task is to reduce material inequality." Putin has stated that the solution to the problem of inequality, as well as of excessive economic dependence on resource rents, is to expand the middle class.

However, Putin's regime is unwilling or unable to take the steps that would reduce income inequality in fact and increase the share of the middle class in society.

The actual growth of the middle class in Russia has been quite slow, while the

concentration of income in the top strata has been rapid. Although there has been growth among some middle-income strata, these are groups who are tied to the state for their livelihoods. By one estimate, the share of families belonging to the middle class (using a loose definition of middle class)<sup>2</sup> has risen to almost 19 per cent (Kuvshinova, 2013).

This share has grown about 1 per cent on average per year. The fastest growth of this stratum, however, came from among state officials, including military and law enforcement officials, who represent 20 per cent of the middle class. Highly educated public-sector workers, such as doctors, teachers, scientific personnel and social service workers, are also middle class by this definition.

1. Thomas F. Remington is the Goodrich C. White Professor of Political Science at Emory University, Atlanta, GA, USA.

2. Meeting any two of three criteria qualifies a household as middle class: income or assets above a certain threshold; higher education or high-skill occupation; or autonomy over life choices.

3. About a quarter of corporate profits in 2010 in the USA were realised in the financial sector. See Tomaskovic-Devey and Ken-Hou (2011).



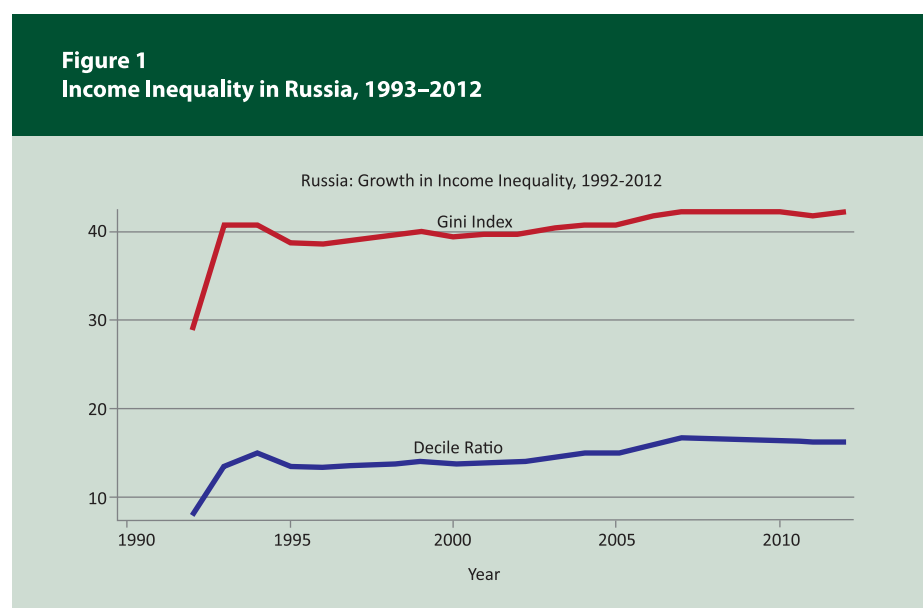
To be sure, **average** incomes have risen significantly since 1999. However, in Russia, as in the USA and China, the rise in mean incomes masks widening inequality.

The Gini index and the decile ratio, which is the income at the 90<sup>th</sup> percentile of the income distribution divided by the income at the 10<sup>th</sup> percentile, have both increased, as Figure 1 shows.

It is difficult to measure the actual distribution of income in a society. Household income surveys typically underestimate the number of extremely high-income households, especially in societies where a large share of income is illegal or unreported. It is likely that, as in China, most unreported income in Russia goes to the highest strata.

Therefore, including hidden incomes would increase aggregate measures of inequality. It goes without saying that both the concentration of incomes in the highest decile and the illicit nature of the income run counter to the goal of forming a middle-class society.

Inequality is a different problem from that of poverty. Poverty can fall and inequality rise at the same time. This has been the case in both Russia and China in recent decades. Inequality also matters in itself. Polarisation of



Source: Author's elaboration.

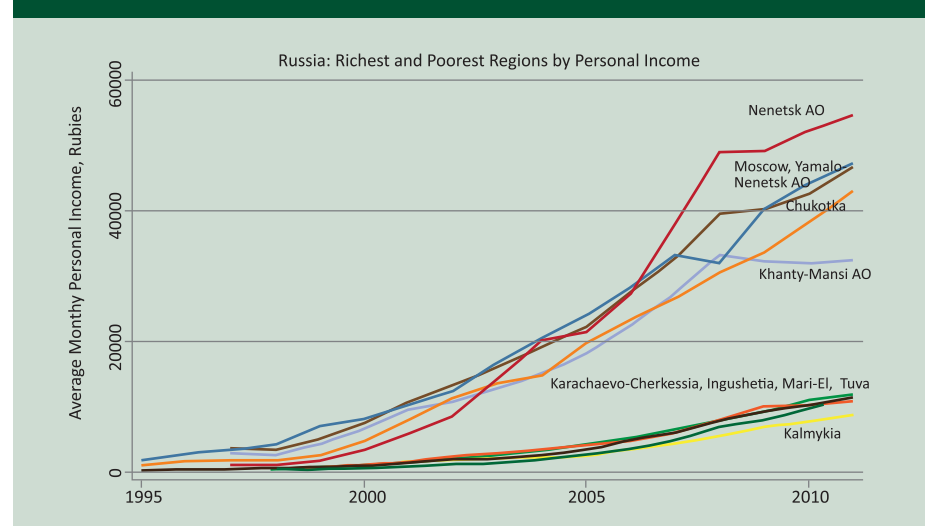
incomes is associated with lower provision of public goods. Better-off strata regard public goods as inherently redistributive (Alesina, Baqir and Easterly, 1999; Easterly, 2001; 2002; Easterly and Levine, 1997). Second, high inequality blocks social mobility, due to the cumulation of advantage over time.

Families in strata with greater access to education, health care, security and government services transmit their advantages to their offspring, reducing the likelihood

that individuals from lower-income strata will rise in the next generation.

Inequality in developed economies is increasing both as a result of changes in the labour structure—particularly the decline in the number of middle-income, middle-skill jobs due to technological change and globalisation—as well as changes in institutions and values (Goldin and Katz, 2007; 2008). In the USA, the financial sector accounts for a growing share of corporate profits and hence of income concentration.<sup>3</sup>

**Figure 2**  
Russia: Income Trends in the Richest and Poorest Regions, 1995–2010



Source: Author's elaboration.

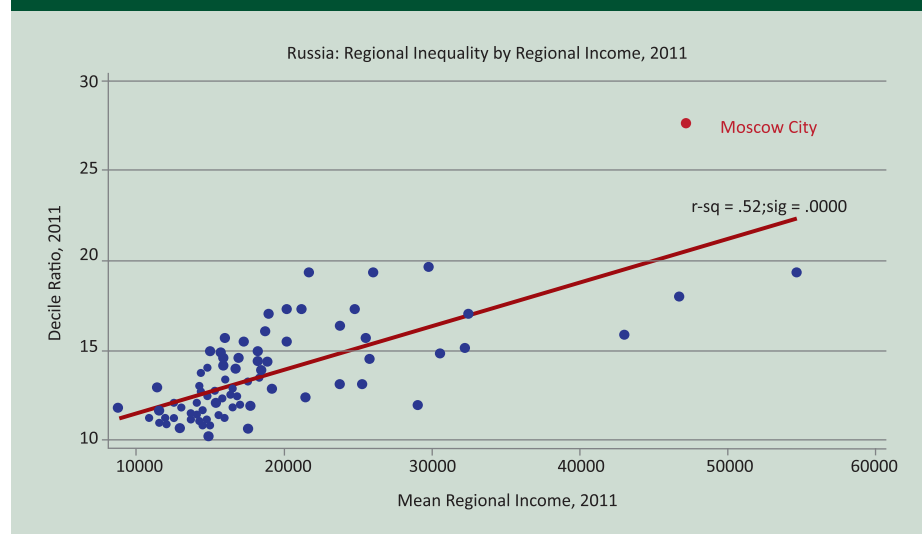
*Poverty can fall and inequality rise at the same time. This has been the case in both Russia and China in recent decades.*

*Inequality in developed economies is increasing both as a result of changes in the labour structure—particularly the decline in the number of middle-income, middle-skill jobs due to technological change and globalisation.*

*The main driver of inequality in Russia, however, is the dominance of the natural resource sector in the economy.*

*On average, incomes in regions where at least half of economic output comes from the extractive industry are a third higher than in other regions.*

**Figure 3**  
Russia: Income Inequality by Mean Regional Income, 2011



Source: Author's elaboration.

Similarly, soaring compensation for top-level corporate executives, like that of celebrity athletes and performers, reflects a premium for celebrity (Frank and Cook, 2010; Atkinson, Piketty and Saez, 2011). Both of these effects are evident in Russia. For example, although financial services account for only a small part of value added in the economy, earnings in the financial sector are now higher than in any other, including oil and gas.

The main driver of inequality in Russia, however, is the dominance of the natural resource sector in the economy.

This affects income distribution in two ways. It drives the rapid rise in incomes in the mineral extraction sector and in the financial sector servicing it. It also explains the extremely high levels of incomes in the resource-rich regions.

On average, incomes in regions where at least half of economic output comes from the extractive industry are a third higher than in other regions. The gap between incomes in those regions and those of other regions has steadily widened as a result of the high wages in such regions.

Figure 2 shows that the richest Russian regions have seen far more rapid income gains than the poorest regions; four of the five highest-income regions are

centres of oil and gas production, and the fifth is Moscow. Moreover, regions with the highest incomes also have the highest interpersonal income inequality (Figure 3).

Although Russian leaders have expressed concern over the growth of income inequality in their society and have called for measures that would concentrate income gains in the middle strata, so far they have failed to reduce the economy's dependence on natural resources.

Rising incomes from mineral extraction have made a few people extremely wealthy and allowed a few regions to enjoy extremely high average incomes. Revenues from resource exports have also fuelled high incomes in the financial sector.

The growth in mean incomes does not reflect growth in entrepreneurship or innovation though. The inequality in the distribution of incomes reflects the economy's dependence on rents from resource extraction, which has increased incomes in the highest income brackets and hindered the expansion of the middle class. ■

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# Expanding Middle Classes and the Power Shift in India

by Zoya Hasan,  
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**In recent years** there has been a constant stream of international attention towards the Indian middle classes. Thanks to the expansion of the middle class, India's image has changed dramatically since the 1990s. Instead of stories about grinding poverty, India is now seen as the heart of new capitalism associated with high rates of growth as well as the new consumerist elite and middle classes.

The changing landscape of cities is dotted with shopping malls, multiplexes, apartment buildings, restaurants and luxury cars, even as poor people are driven to a dismal existence at the peripheries.

Despite all the attention given to India's middle classes, it is important to note that it is a relatively small segment of the population.

The middle classes in India are not a median or near-median category; they are not economically situated somewhere in the approximate middle of the population and do not constitute a majority of the population.

However, a broader definition suggests that the middle class in India is approximately a fifth of its 1.2 billion people. The absolute numbers are still very sizeable. But relative to the whole population, it is small and lacks what most developed societies have, which is that they constitute a substantial proportion of the population, thus making it a median category. More than half of the current middle class is privately employed.

A generation ago, it was centred on public employment, the civil service, universities and government schools.

The middle class has had very considerable influence in shaping government policies as well as the

values and discourses of a range of public institutions. They dominate the bureaucracy and the corporate world; newspaper editors, judges, NGO activists and academics also largely come from such privileged and middle class backgrounds.

Despite the expansion of the middle classes, the oppressed and exploited lower classes are numerically much larger, and the majority of which live without economic and social security.

At the same time, a deepening of democracy and a political churning from below has greatly changed the consciousness of oppressed groups and produced a new sense of dignity and self-esteem.

It has made them much more politically aware of their entitlements and the benefits of development denied to them.

The middle classes feel insecure and resentful in response to this sense of challenge from below. This has given a sharper edge to the long-standing fracture between the 'Two Indias'.

There is now the 'thriving' India, mainly urban, skilled and entrepreneurial, with close links to the globalised world, and the 'other' India, mainly rural but also growing in urban centres, which has been left behind in the development process as they lack assets and skills.

However, this 'other' India is also more demanding and aspires to access opportunities available to the new middle classes in urban centres.

The middle class has vast economic clout, but it remains politically marginalised in a huge democracy where the rural masses still dictate election outcomes.

The situation has nevertheless started to change, and the middle classes are now more assertive and a vocal and

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**The middle class has vast economic clout, but it remains politically marginalised in a huge democracy where the rural masses still dictate election outcomes.**

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1. Zoya Hasan is a Professor at the Centre for Political Science of the School of Social Sciences at Jawaharlal Nehru University, India.

2. For an account of the middle classes and intelligentsia before Prime Minister Manmohan Singh came to power, see Seabrook (2012).

*Aided by social media, the burgeoning middle class is increasingly able to mobilise as a coherent group, as demonstrated by the crucial role it played in the anti-corruption campaign led by the Gandhian Anna Hazare throughout 2011 and 2012.*

*Whereas the earlier middle class saw some politicians as heroes, idolising Mahatma Gandhi and Jawaharlal Nehru, the new middle class mostly regards politicians with absolute contempt, placing greater faith in business leaders or, in some cases, non-governmental organisations.*

influential political force. An expanding wave of middle-class activism across India has catapulted them to the centre stage of political discourse.

Rapid growth has led the middle classes to expect continuing improvements in their standard of living. But in the aftermath of the economic slump and the slowing down of India's growth, these classes have become disgruntled as they fear erosion of their income gains and wealth by inflation, which has been relatively high in the last three years.

Recent grievances have also arisen from political dissatisfaction relating primarily to poor governance, unprecedented corruption scandals and the lack of public safety for women.

Unlike the protesters of the earlier social movements who were mostly Left and Gandhian and stood for a vision of systemic social transformation, the new middle-class activists have no social vision, no ideology and no overarching ideas that define their activism.

They abhor traditional political organisations and party politics. They are very angry with politicians and particularly critical of the state, yet they continue to make demands of the very state they despise.

Aided by social media, the burgeoning middle class is increasingly able to mobilise as a coherent group, as demonstrated by the crucial role it played in the anti-corruption campaign led by the Gandhian Anna Hazare throughout 2011 and 2012.

Throughout such a time, thousands of people took to the streets to demand a strong anti-corruption law. The campaign drew people from all classes but was dominated by the urban middle class whose assertiveness and political weight have, consequently, increased.

This campaign marked an organisational triumph, which precipitated the emergence of middle classes as a politically active force.

This protest signals a shift towards civil society in terms of the changing balance

between the State and civil society and the latter's influence on the political decision-making process.

Within civil society it has led to a shift away from those who are willing to work within the existing political framework towards those who are keen to challenge it (Patnaik, 2011).

Corruption has increased enormously, but in middle-class thinking it is the corruption in politics that matters the most and is perceived to be the vestige of an overextended state.

Whereas the earlier middle class saw some politicians as heroes, idolising Mahatma Gandhi and Jawaharlal Nehru, the new middle class mostly regards politicians with absolute contempt, placing greater faith in business leaders or, in some cases, non-governmental organisations.<sup>2</sup>

Politicians are typically villified by the media, television channels and Bollywood movies portrayed as: totally corrupt and habitually insincere.

Anti-corruption campaigns focused narrowly on government, politicians and bureaucracy as the chief source of corruption, while ignoring the complicity of the private sector in corruption associated with the privatisation of state property and the transfer of resources such as land, minerals and natural gas, among others, to private players.

The labelling of corruption as something that belongs to the political domain means that corruption is never about the middle classes (even though they are usually the biggest beneficiaries of corruption because they dominate the government), but always about others—i.e. ministers, legislators and bureaucrats (Chatterjee, 2013).

A spotlight on corruption appeals to everyone and keeps other pressing questions of inequality and injustice at bay.

India has not done enough for its poor population, something that should be morally and economically unacceptable.

However, the middle class is not as interested in the nation's innumerable social issues; instead, the public discourse is all about the falling rate of GDP growth and India's economic troubles.

Economic growth and human development are inextricably linked, but the middle classes are less supportive of public policies that promote economic inclusion and redistribution.

In fact, they judge the political system solely in terms of the standards of governance and are critical of rights-based legislation—i.e. the right to information (2005), to employment (2006), to education (2009) and to food (2013)—introduced during the two terms of the United Progressive Alliance government (2004–14) led by the Congress party.

Government investment in key social sectors is crucial, yet the middle class has an utter lack of interest in public schemes to ensure access to basic goods and services for the majority of people. Far from supporting welfare spending which can help poor people, the middle classes urge the government to intensify economic reforms irrespective of the widening disparities and deeply entrenched social inequality, and curtail public expenditure, on the premise that such spending will impede growth.

Numbers matter in electoral politics, yet the ruling Congress party and the principal opposition party the Bhartiya Janata Party are going all out to woo the upwardly mobile middle classes at a time when the economy has witnessed a loss of economic momentum, causing both a political crisis and policy paralysis.

Although it is hard to harness popular support for economic reforms in a deeply unequal society, political parties are still trying to do so because of a power shift towards the urban middle classes and away from other classes in terms of socio-political influence.

Earlier the struggle for power took place through political parties, and the influence of any class was the function of its relative numerical weight within political parties. Although the leadership of parties came from the ranks of the

middle class, the compulsions of electoral politics meant that their influence had to be balanced against that of the numerically stronger classes inside political parties.

Middle-class political influence fell far short of its economic weight, and this contradiction only grew after economic liberalisation.

But this has changed with the greater assertiveness of the middle classes, who began to exercise influence even without an active participation in the electoral process (Patnaik, 2011).

Now it seems that the middle classes are poised to play a major role in the political narratives of the general election set for 2014.

For some time now, the ruling Congress party has been wondering how to reconcile attempts at appealing to India's powerful (and growing) middle class with its focus on its traditional support base of poor people.

Rahul Gandhi, the party's Vice-President, has been, in some ways, a lightning rod for that conflict. His political sympathies may privately lean towards a pro-poor platform, but fear of middle-class opposition to social welfare policies has meant that he remains non-committal in public. His party is worried about the potential loss of the middle-class support, which helped it to win a large number of urban constituencies in the 2009 general elections.

To repeat this feat, it is crucial to reach out to the disenchanted middle classes who seem to have little faith in the party, in government institutions and associated public policies.



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*The middle class is not as interested in the nation's innumerable social issues; instead, the public discourse is all about the falling rate of GDP growth and India's economic troubles.*

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# Opportunities and Challenges from the Rise of Asia's Middle Class

by Natalie Chun,  
Asian Development Bank<sup>1</sup>

**Beyond increasing consumption demands, a transformation in perceptions and values that lead to more productive investments and potentially greater decreases in poverty will accompany this emerging middle class.**

**The rise of Asia's middle class provides a significant opportunity that countries and the private sector can exploit by supplying goods and services that address the growing and diverse set of consumption preferences.**

**The next few decades** will see the rise in a new Asian middle class that will contribute to the shift in economic power away from the West. Assuming similar rates of poverty reduction and economic growth to those of the past two decades, the middle class and upper class in developing Asia, defined on an absolute scale of, respectively, US\$2–20 and \$20+ (using purchasing power parity adjustments), are expected to grow by 300 million and 1.1 billion, respectively (Figure 1).

This growth will drive consumption demand in Asia from an estimated \$4.5 trillion in 2009 to close to \$44 trillion by 2030—accounting for nearly half of global demand and about 1.6 times the demand predicted for OECD countries (Figure 2).

Beyond increasing consumption demands, a transformation in perceptions and values that lead to more productive investments and potentially greater decreases in poverty will accompany this emerging middle class.

This is, in part, because members of this middle class are greater proponents of gender equality, are more optimistic about prospects for upward mobility, place a larger emphasis on technology use, and believe more in market competition than those in the lower class.

The middle class is also more involved in politics and tends to have greater trust in government than both the lower and upper classes. Many of these aspects set the basis for the middle class to serve an important role in getting governments to pay attention to social issues and ensuring that public investments in infrastructure and education are supplied which can benefit the broader population.

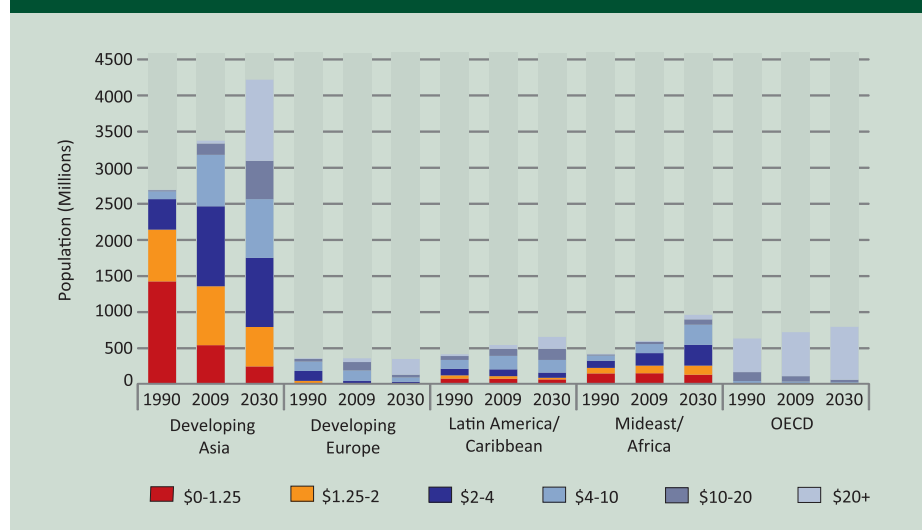
While the middle class may be a political force necessary for long-term stability, it also serves as a strong stimulus for change, creating significant short-term economic and social disruptions when governing parties have not done enough to accommodate its values and concerns.

Compared to other regions, the classes in Asia are generally more trusting and less politically active, with a higher degree of market orientation and perceived upward mobility. These aspects are potentially conducive to strong economic growth continuing in the Asia region over the longer term.

The rise of Asia's middle class provides a significant opportunity that countries and the private sector can exploit by supplying goods and services that address the growing and diverse set of consumption preferences. The countries and firms that can achieve significant penetration into middle-class Asian markets will have a good chance of securing a source of demand that may ultimately provide economic stability and even growth for suppliers well into the future. While the optimism surrounding

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**Figure 1**  
**Population by Region, 1990, 2009 and 2030**



Source: Chun (2012).

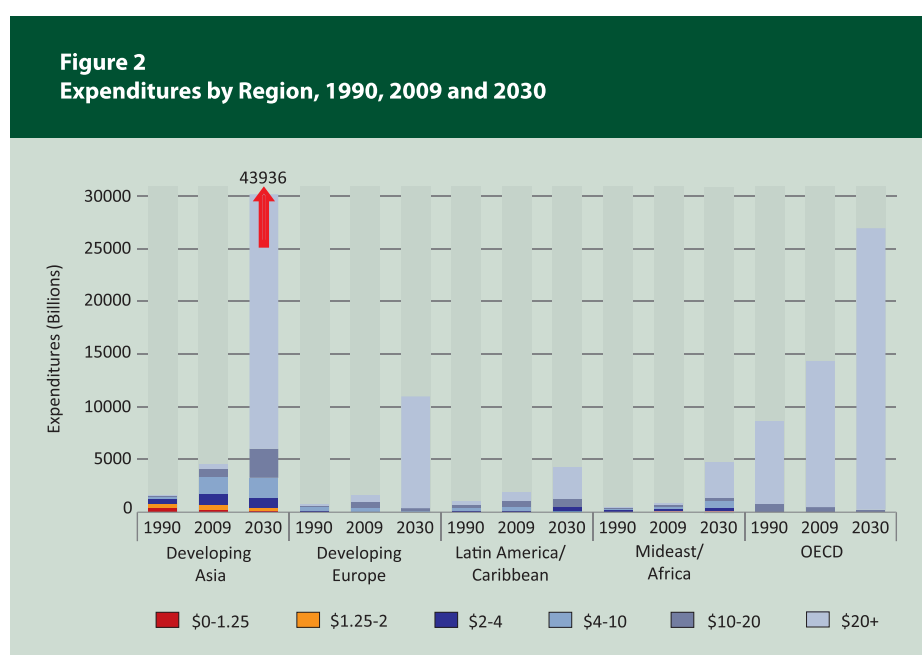
the rise of the Asian middle class is justified, there are challenges that may cause middle-class growth in the region to fall well short of its potential.

First, consumption growth is largely predicted to be driven by progress in China, while other countries continue to lag. Even in 2030, more than two thirds of the estimated 4.2 billion people in developing Asia reside outside China and are predicted to account for the large majority of the 780 million making below \$2 per day and 1.7 billion making \$2–10 per day.

Second, the rising consumption power of the middle class increases the demand for energy-intensive items such as cars, washing machines and air conditioners that may stretch energy demands and pollution levels to their limits. Already some Asian cities have experienced massive increases in pollution that have adversely affected health and caused losses in labour productivity, while other cities have faced significant disruptions in energy supply which have constrained economic growth. These issues are likely to grow without finding new sources of energy supply or developing more energy-efficient and cleaner technologies that can be supplied at a reasonable price.

Third, a disconcerting global trend toward greater job informality has occurred over the last 20 years. While developing Asia saw increased job formalization over this period, it was relatively moderate, with signs of increasing informal employment in higher value-added non-agricultural sectors. Given the uncertainty that arises from having an informal job, some potential consumption expenditures may be eroded, as the need to save money rather than spend it will probably increase due to greater fluctuations and uncertainty regarding income flow.

Fourth, Asia is not immune to the middle-class dissatisfaction that has arisen in other regions and caused significant economic disruptions. The Asian middle class has become increasingly more vocal about issues of the environment, transparency and freedom of speech. All of these challenges may mean that current



predictions of the rise of the Asian middle class may be too optimistic without undertaking active interventions.

To mitigate the possible consequences that may arise requires innovative developments in technology and programme and policy design. This presents significant opportunities for innovative companies to help build and grow the Asian middle class, rather than becoming suppliers only for conspicuous consumption. With greater regional integration, lower-income countries with a cheaper labour supply and low production costs can become suppliers to some of the emerging middle class in more well-off countries, which in turn can foster greater economic growth and growth of their own countries.

However, this may require fundamental changes in how countries operate to ensure that this opportunity is not lost and some of the large disparities among Asian countries can be closed. In particular, it may require strengthening institutions, improving the investment climate and relaxing protectionist trade policies which can ensure that firms can compete on fair terms to ensure maximal entry and the growth of innovative firms. In general, much more needs to be understood about how to help and support the growing but still very

vulnerable Asian middle class. Broad policy prescriptions may do little to help, and there needs to be a more micro-based understanding of middle-class dynamics and the impacts that different policy and programme design have on different population sets.

Growing wealth in Asia which builds a stronger and more stable middle class will be integral to developing and generating greater growth, not only within the region but globally. However, there is a need to remain aware of the challenges that are faced by the middle class and to develop the right tools to meet those challenges so that their growth will not just meet expectations but exceed it.

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by Justin Visagie,  
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# Who are the Middle Class in South Africa? What are the Implications for Policy?

... the desirability of growth of the middle class may hide fairly obvious contradictions in the way in which this group is used and defined in policy discussions.

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2. See Visagie and Posel (2013) for a more detailed discussion of this work.

**Rapid growth** of the middle class holds promise of a brighter future for developing countries. The middle class is commonly attributed with a range of positive outcomes including: providing a base of growing human capital (Sokoloff and Engerman, 2000); through attitudes and behaviours specific to the middle class (such as savings and entrepreneurship) (Landes, 1998); as the primary driver of domestic consumption (Pressman, 2007; Kharas and Gertz, 2010); achieving political stability (cf. Barro, 1999; Easterly, 2001); and holding governments accountable (Kharas and Gertz, 2010).

However, such a blanket judgement on the desirability of growth of the middle class may hide fairly obvious contradictions in the way in which this group is used and defined in policy

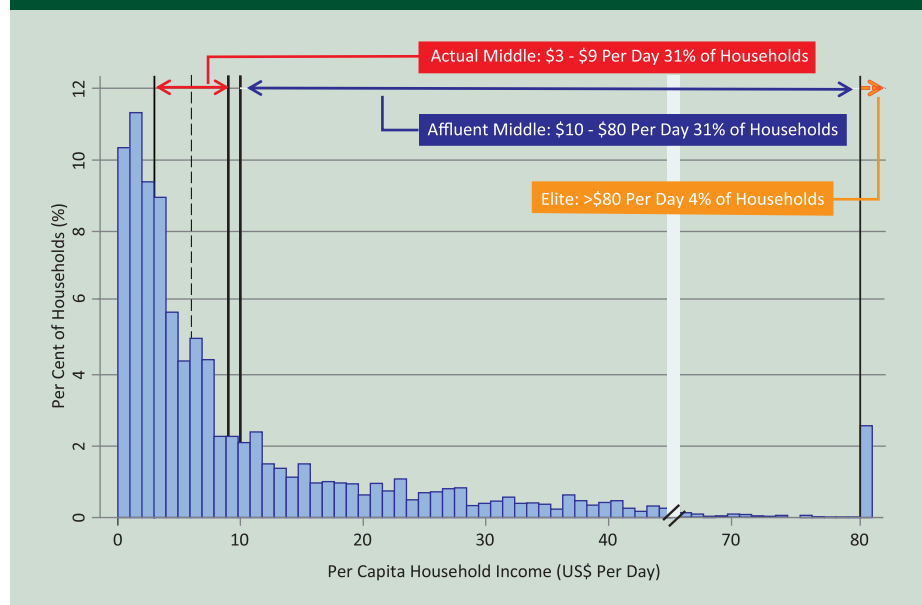
discussions. Such ambiguity needs to be more carefully considered and acknowledged, particularly in light of the implications for income inequality and 'inclusivity' in developing economies. How do you define 'middle class', particularly when contextualising this question within developing countries with high income inequalities? Who really are in the 'middle', and what does it mean for economic policy?

Economists typically measure the middle class very pragmatically using per capita household income. This requires providing an appropriate boundary for 'middle-class' status (such as US\$10–100 per day; see Kharas and Gertz, 2010; Birdsall, 2010). However, the 'middle' is also taken as the actual—or literal—'middle' of the distribution of income (such as in the middle income deciles or a boundary around the median income; see Easterly, 2001; Pressman, 2007). These two approaches to defining the middle class may broadly reconcile in developed countries with relatively high average standards of living and lower income inequalities.

However, for developing countries, the 'middle class' (as understood in everyday usage) is not in the middle of the income distribution. And those who are in the middle are not 'middle class' (in the sense of being above some minimum standard of living).

South Africa is a case in point.<sup>2</sup> Figure 1 shows the spread of incomes in South Africa in relation to the two abovementioned definitions of the 'middle class'. The middle class defined by the 'actual middle' (here using an interval of 50–150 per cent of the median per capita income) receives between \$3 and \$9 per person per day (which is bordering on poverty). Defining the

**Figure 1**  
Defining the Middle Class: the Distribution of Income in South Africa



Source: National Income Dynamics Survey 2008; own estimates.

Note: The horizontal axis has been truncated between \$40 and \$70 to fit the entire income distribution on one figure. Incomes above \$80, in the right-hand tail of the distribution, have been aggregated.

middle class by 'relative affluence', however (here using a modest lower bound of \$10 per person per day), captures households in the top 35 per cent of income earners—and would exclude only a small 4 per cent of households in the 'upper class' if an upper threshold of \$80 is applied.

The clear contrast in the nature of the 'middle' across these two approaches has important ramifications for policy. If the middle class is conceptualised in terms of relative affluence, growing the relative size of the middle class would amount to supporting economic policies which would favour the relatively affluent and leave the majority of households behind, thereby increasing income inequality and income polarisation.

Nevertheless, this would have economic benefits such as growing the pool of people with skilled occupations and raising consumer demand within the domestic economy, which could lead to higher economic growth.

By contrast, if the middle class is defined as the actual middle group, then increasing the relative size of the middle class—many of whom are quite poor—would imply supporting economic policies that favour the poor and nonaffluent population and thus decrease the polarisation and inequality of income. This may promote greater social and political stability and contribute to better educational and health outcomes in the longer term through fairer public investments, and thus promote economic and human development as well as social justice.

Taking both approaches together helps to better assess the nature of development and keeps in focus the need for balanced income growth. South Africa again illustrates the point and shows a very interesting pattern of income growth over the first 15 years of democracy (1993–2008).

In terms of relative affluence (measured by \$10–80 per capita per day), South Africa experienced a large increase in the size of the 'Black middle class' between 1993 and 2008. Political liberation has evidently effected economic

emancipation, and the Black middle class more than doubled in size, from 2.2 million people in 1993 to 5.4 million in 2008. The racial composition of the middle class actually switched from majority White to majority African over this period. However, in spite of strong growth of the Black middle class, the total size of the middle class in South Africa showed only modest growth (in step with increases in population size).

This can be explained by falling numbers of middle-class Whites, largely due to emigration, but also due to movement up the class ladder into the very exclusive 'upper class' income category (in excess of \$80 per capita per day). Income and wealth become much more concentrated at the very top—the result being that South Africa's income inequality (already one of the highest in the world) has continued to rise post-1994 (Hoogeveen and Özler, 2006; Leibbrandt et al., 2010).

What about those in the 'actual middle'? Households in the literal middle of the distribution of income (between 50 per cent and 150 per cent of the median per capita income) in South Africa experienced very slow income growth over the first 15 years of democracy. Indeed, the middle of the income distribution experienced the slowest level of growth of all income groups—at less than 0.5 per cent per annum on average between 1993 and 2008. Households at the very bottom were propped up by a large expansion in social welfare spending (through social grant income), while those at the top benefited from market-driven growth.

The middle income group did benefit to some extent from increases in state welfare, but this was offset by a fall in total labour market earnings—caused by rising unemployment. Such a lack of absorption in mainstream economic activity and absence of income growth for the 'average' household over a long period is a reason for concern. Rising political unrest and social instability in South Africa may be a symptom of such slow income progress in the middle group, which constitutes more than 30 per cent of households. South Africa's economic development path needs to become more inclusive—to actually

involve these households in growing economic activity and earnings—to succeed in moving a struggling middle away from the periphery of income growth.

This analysis of South Africa clearly illustrates the importance of paying attention to what is meant by 'middle class'. Certainly, both the actual middle income group and the affluent middle class are important pieces of the development puzzle. The middle class contains key elements for economic progress and development—however, in developing countries the discussion around what is 'middle class' and the implications for policy are more nuanced than we often admit.

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# The Rise of the African Middle Class and Continued Racial Inequality in South Africa

**With the removal of legal barriers to social mobility along the lines of race, there has been an increase in the size of the South African middle class, especially among urban Africans.**

**Our definition of the middle class is based on indicators of the material standard of living, which implies a secure and desirable living situation.**

**South Africa has the** largest economy in sub-Saharan Africa and has been lauded for the success of its macro-economic growth policies. Much of the attention of the new South African state since 1994 has been to equalise the situation under apartheid in which the population was divided into four officially recognised groups: Whites, Asians, Coloured Persons and Africans.

All non-Whites suffered from legalised discrimination, which differed to the extent that opportunities for such groups were quite limited with Asians being the least restricted, Coloured persons slightly more restricted and Africans, being the most heavily restricted.

With the removal of legal barriers to social mobility along the lines of race, there has been an increase in the size of the South African middle class, especially among urban Africans. However, the proportion of Africans in the middle class remains far below that of Whites and other groups. African middle-class households have substantially lower expenditures than middle-class

households from other racial groups, and even among middle-class persons, Africans are far less likely to hold middle-class jobs. Thus, despite substantial progress since the end of apartheid, to some extent the level of racial inequality still mirrors the situation during apartheid.

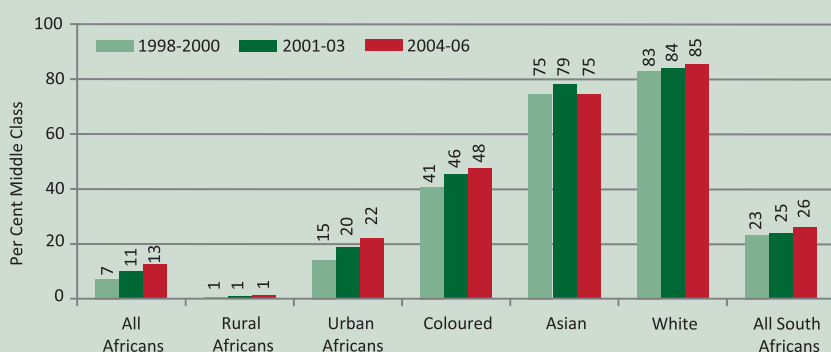
Across the world there have been many approaches to defining middle-class households. Some have used education or occupation as a defining characteristic, and others have used household possessions, items purchased or income. We look at middle-class households based on nationally representative surveys conducted annually in South Africa between 1998 and 2006 (Statistics South Africa, 2010a; 2010b).

We do not use household possessions to identify households with a middle-class standard of living, partly because the list of household possessions collected is not consistent across surveys taken in different years. Also, whether a household possesses an item such as a television reflects not only the purchasing power of that household but also lifestyle preferences and other influences that could have little to do with whether the household is middle class. For example, it is known that consumption patterns of African and of White households in South Africa differ, even for households at the same income levels.

Our definition of the middle class is based on indicators of the material standard of living, which implies a secure and desirable living situation. We identify a household as having a middle-class standard of living if it:

- resides in formal housing;
- has a water tap in the residence;
- has a flush toilet in the residence;
- has electricity as the main lighting source;

**Figure 1**  
Percentage of Households With a Middle-class Standard of Living,  
South Africa, 1998–2006



Source: Author's elaboration.



- has electricity or gas as the main cooking source; and
- has a landline or a household member has a mobile phone.

As shown in Figure 1, the percentage of all South African households that experience a middle-class standard of living changed very little from the period of 1998–2000 to the period of 2004–2006, rising only from 23 per cent to 26 per cent. Differences in the proportion of households with a middle-class standard of living mirror differences between the four different officially recognised racial groups of the apartheid era.

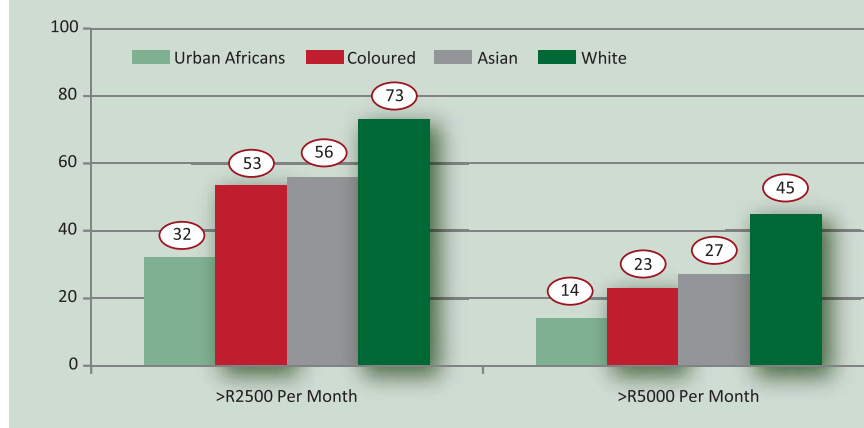
The results are shown separately for urban African and rural African households. This is because in 2006, while over 80 per cent of each non-African group resided in urban areas, only 57 per cent of Africans lived in urban areas. Nearly all (96 per cent) of the residents of rural areas were Africans. Although the percentage of urban African households in the middle class increased rapidly, almost no rural African households were considered to be middle class.

Among middle-class households, the prosperity of each population group followed the racial hierarchy present under apartheid. As shown in Figure 2, White households were much better off than middle-class households from other population groups. In 2006, 73 per cent of White households with a middle-class standard of living reported monthly expenditures of more than R2500 (US\$313 at R8 = US\$1), and 45 per cent of White households had monthly expenditures of more than R5000. This was the case for only 32 per cent and 14 per cent of middle-class African households, respectively, with Asian and Coloured households filling a middle position.

Figure 2. Percentage of households with a middle-class standard of living with monthly expenditures greater than R2500 and greater than R5000, South Africa, 2006.

In 2006, 78 per cent of all South African households were African. Thus, despite the higher proportion of non-African than African households in the middle class, the South African middle class has

**Figure 2**  
Percentage of Households with a Middle-class Standard of Living with Monthly Expenditures Greater than R2500 and Greater than R5000, South Africa, 2006



Source: Author's elaboration.

increasingly become comprised of African households. By 2006, there were as many African middle-class households as White middle-class households, and by 2010 the majority of all middle-class households were expected to be African. The changing racial composition of the South African middle class has influenced South African product development and advertising decisions.

The occupational fate of young adults in middle-class households also differs by race. If one looks at young adults aged 25–39 who live in middle-class households, one can compare the returns to schooling of Whites and Africans.

White young adults in middle-class households are much more likely to hold professional or managerial jobs than are African young adults in middle-class households, even after differences between Whites and Africans in educational attainment are taken into account.

Differences between Whites and Africans in holding managerial jobs are much greater than for professional jobs. There is no evidence of any change in this differential between 1998 and 2006. Differences by race in the quality of schooling and in choice of specialisation could explain some of this difference. However, a White young adult with less

than a matric (secondary school diploma) is still more likely to hold a managerial job than is an African young adult with a university Bachelor's degree. It does not seem reasonable that a difference this large is due to differences in the quality of schooling.

The middle class in South Africa grew between 1998 and 2006, especially for urban African and Coloured households. However, White and Asian households remained much more likely to have a middle-class standard of living, and, among middle-class households, African households tended to have lower monthly expenditures. Also, among young middle-class adults, Whites were much more likely than Africans to hold a managerial job at every level of educational attainment. Thus South Africa has a substantial distance to go before entry into the middle class and the welfare and opportunities of those in the middle class are equalised across racial groups. ■

**Statistics South Africa (2010a). *Changes in Standard of Living among Population Groups in South Africa: 1998–2006*. Pretoria, Statistics South Africa, <<http://www.statssa.gov.za/publications/Report-03-03-02/Report-03-03-02.pdf>> (accessed 4 August 2013).**

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