

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.

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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 and edited accordingly by the IPC-IG team.

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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 Growth¹

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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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.

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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.



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)¹

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.

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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 level, has improved in quantity, quality (54th 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*,² 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.³ 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.¹ 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

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.

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.