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# LATIN AMERICA: Middle class expands, but not equality

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## Abstract

A new World Bank study, *Economic Mobility and the Rise of the Latin American Middle Class*, was published on November 13.

The study found that Latin America's past decade of sustained economic growth, in contrast to the 'lost' 1980s and relatively flat 1990s, has produced a huge change in class structure, but not in income distribution or intergenerational mobility.

## Full Text

**EVENT:** A new World Bank study, *Economic Mobility and the Rise of the Latin American Middle Class*, was published on November 13.

**SIGNIFICANCE:** The study found that Latin America's past decade of sustained economic growth, in contrast to the 'lost' 1980s and relatively flat 1990s, has produced a huge change in class structure, but not in income distribution or intergenerational mobility.

**ANALYSIS:** Impacts.

Middle-class Latin Americans now equal the poor in number.

Any reversal of this trend could have significant political risk implications.

Parental education and income continue to influence children's outcomes more than in other regions.

The new World Bank study found that, between 2003-09, the region's middle class, broadly defined, swelled from around 54% to almost 68% of its population while poverty dropped from 44% to 30%. Moreover, the fastest growth was seen in the segment of the middle class enjoying a significant degree of economic security, rather than that poised more precariously just above the poverty line ( see LATIN AMERICA: Rising wages drive middle class growth - April 29, 2011).

Two-tier middle class.

In a departure from usual definitions of the middle class based on either education, type of employment and assets or simply income level, the new study introduces the criterion of "economic security" -- a low risk (no more than 10% over five years) of falling back into poverty. The result is a two-tier middle class: the middle class as such, with per capita daily household income of between 10-50 dollars in purchasing power parity terms (for a family of four, an annual income of 14,600-73,000 dollars) and a "vulnerable", or lower-middle, class, with 4-10 dollars a day:

Middle class. This is the segment of the population of Latin America and the Caribbean (LAC) that has seen the highest growth, expanding by nearly 50% from 103 million people in 2003 to 152 million in 2009 (30% of the population, up from around 20% in 2003). This trend was particularly marked in countries including Ecuador, Argentina, Colombia, Peru and Chile as well as Brazil (which alone accounted for over 40% of the overall increase ( see BRAZIL: Social policy, birth rates improve indicators - May 18, 2009)). Uruguay, the Dominican Republic and El Salvador saw significant contractions of their middle class -- although, in Uruguay, it continued to represent over 50% of the population, the highest in the region.

Vulnerable class. According to the study, this segment replaced the poor as LAC's largest social class in 2005 and, by 2009, accounted for 37.5% of the population, up from around 34.0% in 2003.

The rich, defined as a daily per capita income of over 50 dollars, continued to represent around 2% of LAC's population. By 2009, however, the figure for Chile -- with the region's highest per capita income -- had reached almost 5%, possibly indicating a future trend elsewhere.

Economic growth vs income distribution .

After dropping by 0.2% a year in the 1980s and increasing by only 1.2% annually in the 1990s, per capita income in LAC rose at annual rate of 2.2% in the 2000s. According to the World Bank, this was the single most important factor in both reduction of poverty -- of which it accounted for 66% -- and growth of the middle class (74%). A small improvement in LAC's highly unequal income distribution also contributed to the growth of the middle class, particularly in Argentina and Brazil, but was a minor factor in most countries.

Mobility.

However, the growth of the middle class conceals two very different trends as regards socioeconomic mobility:

Intragenerational mobility .

The World Bank estimates that, thanks to the upward shift in per capita incomes, at least 43% of LAC's population changed social class between the mid-1990s and the end of the 2000s. It calculates that, of the 45.7% who started out poor, 21.0% moved into the vulnerable class and 2.2% into the middle class while, of the 33.4% who started out in the vulnerable class, 18.2% moved into the middle class.

This is largely an automatic consequence of economic growth in lifting people out of poverty or, in the case of

the vulnerable, increasing economic security. However, the World Bank also found a correlation with public spending on public health and education, although not total social spending ( see LATIN AMERICA: Poverty fight faces structural barriers - December 5, 2011). In addition, in an interesting finding for poverty-reduction policies, it concluded that women's participation in the workforce is correlated with mobility into the middle class but -- contrary to the common belief that it is one of the fastest ways to lift a family out of poverty -- not with mobility out of poverty.

Intergenerational mobility .

However, this upward shift in income and, therefore, social class during a person's lifetime was not accompanied by a reduction in "origin dependence" -- the extent to which a person's future income and socioeconomic conditions are determined by family and background -- and did not produce a significant increase in equality of opportunity ( see LATIN AMERICA: Poverty policies fall short on equality - December 2, 2010). Using principally educational data, the report concludes that, in this area, LAC countries, in general, continued to perform very poorly by international standards. In a key factor in this immobility, the initial disadvantage of poor parental education appears to be compounded by socially-segregated schooling.

Political challenges.

A larger middle class is generally regarded as favouring political stability and, for example, reducing the risk of populism. However, it is not clear that, in LAC, this will necessarily be the case:

Quality of public services.

Since the latter part of the 20th century, LAC countries have generally been characterised by a small state, with a low tax burden (except in Argentina and Brazil) and, as a result, low-quality public services, with the rich and the middle class generally opting out of these services in favour of private providers. A persistence of this trend as the middle class continues to grow -- and its resulting unwillingness to pay higher taxes -- would imply the risk of a further deterioration in public services and, divisively, the exclusion of the (albeit shrinking) poor class from some of the benefits of economic growth.

Counter-cyclical protection.

In LAC countries, the lower-middle class has limited access to social benefits, which target principally the poor, but is extremely vulnerable to the changes in economic conditions that can, for example, be produced in many countries by swings in the prices of their commodity exports. In recent years, this class has, moreover, become far more vociferous in defending its interests. As it is now LAC's largest social class, new policies will be required, for both political and social reasons, to cushion it against future downturns in economic performance.

**CONCLUSION:** Improved macroeconomic policies have helped to produce sustained growth and increased resilience to external shocks, shifting the regional income structure upwards. However, equality of opportunity has not improved significantly and, combined with much of the region's ongoing vulnerability to commodity-price cycles, implies that new public policies will be required if progress is to be transformed into increased social cohesion.

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Details

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