

Measuring the Global Middle Class

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A large and stable middle class is often praised to be the engine of economic growth, social cohesion, and better functioning institutions (Madland, 2015; Loayza et al, 2012). Members of the middle class are essential for driving up consumption, investment, innovation, demand for quality services (e.g. education and health), and public revenue collection (given that they often pay the largest share of tax burden) (Birdsall, 2015). Policymakers around the world often cater to the middle classes since they are deemed to participate more in political and civic life, and to foster trust and social stability (Robinson et al, 2021).

Despite all the attention for and positive connotations attributed to the middle class, there is no consensus about how to define and measure it. Moreover, there is no clear understanding whether the middle class denotes a homogeneous or heterogeneous group of people in different regions and countries around the world, and, in turn, how policies aimed at strengthening and fostering the middle class may need to be tailored to different contexts.

In this paper, we take stock of existing methodological approaches to measuring the middle class, and then apply a “vulnerability approach” to measuring the middle class from a global perspective. To do this, we determine an income/consumption level for each country that would correspond to a notion of “economic security,” such that the probability of an individual falling into poverty is low. We then aggregate that economic security threshold at the regional level to determine what income/consumption level corresponds to the lower-bound of the middle class for that region. We then compare the profile of individuals belonging to the middle class in the different regions, drawing some general policy implications. While this method has previously been applied in the Latin America and the Caribbean region, this would be the first global application of this approach—allowing for a broader understanding of what it means to be middle class in different regional and income contexts.

The economic literature on the measurement of the middle class can be categorized into four main approaches: relative, absolute, polarization-based measures, and vulnerability-based measures.

The relative approach defines the middle class as the population located at the middle of the income distribution, where the middle is usually defined by setting intervals constructed from median income or average income. Different authors set different thresholds: between 75% and 125% of median income (Birdsall et al., 2000), between 50% and 150% of median income (Castellani, 2011) or between 100% and 250% of average income (Song, Cavusgil, Li, and Luo, 2015). In other cases, authors concentrate on specific quintiles of income (or consumption) distribution. For instance, Barro (1999) and Easterly (2001) consider the middle three quintiles as middle class; Alesina and Perotti (1996) include the third and fourth quintiles, and Partridge (1997) the third quintile only.

The absolute approach fixes the boundaries of the middle class exogenously. The main advantage of the absolute approach is that it allows an international comparison of the middle classes on the basis of exogenous thresholds, in the same way as a fixed international poverty line allows international poverty comparisons. For example, \$2-\$10 (Banerjee and Duflo, 2008), \$2-\$13 (Ravallion, 2010) and \$2-\$20 (Castellani and Parent, 2011), \$10-\$20 (Milanovic and Yitzhaki, 2002), \$10-\$50 (Ferreira, Messina, Rigolini, Lugo, and Vakis, 2013) or \$10-\$100 (Kharas, 2010, 2017), 5.5 \$PPP-10 \$PPP (Clementi et al, 2022).

The polarization-based approach is based on Esteban et al. (2007). It defines the middle class as the set of individuals whose feelings of identification within the group and alienation with respect to the set of poor and rich individuals are both contemporarily maximized. Graphically, the middle class coincides with the central segment of a three-pieces linear approximation of the Lorenz curve. As underlined by Cruces et al (2011), the main advantage of the polarization-based approach is that it endogenously defines the cutoffs by taking into account the entire distribution, without any arbitrary decision.

The vulnerability approach defines the middle class starting from the understanding that middle-class individuals are able to insure against idiosyncratic shocks, and therefore are able to reach a level of economic security that makes them safe from becoming poor (López-Calva and Ortiz-Juarez, 2014; Dang and Lanjouw, 2017). In a world of increasing uncertainty (from financial volatility, to social unrest, climate change, pandemic events) understanding the extent with which societies are able to cope with risk is of uppermost importance to policy makers.

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