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Rethinking the measurement of the middle class: Evidence from Arab countries

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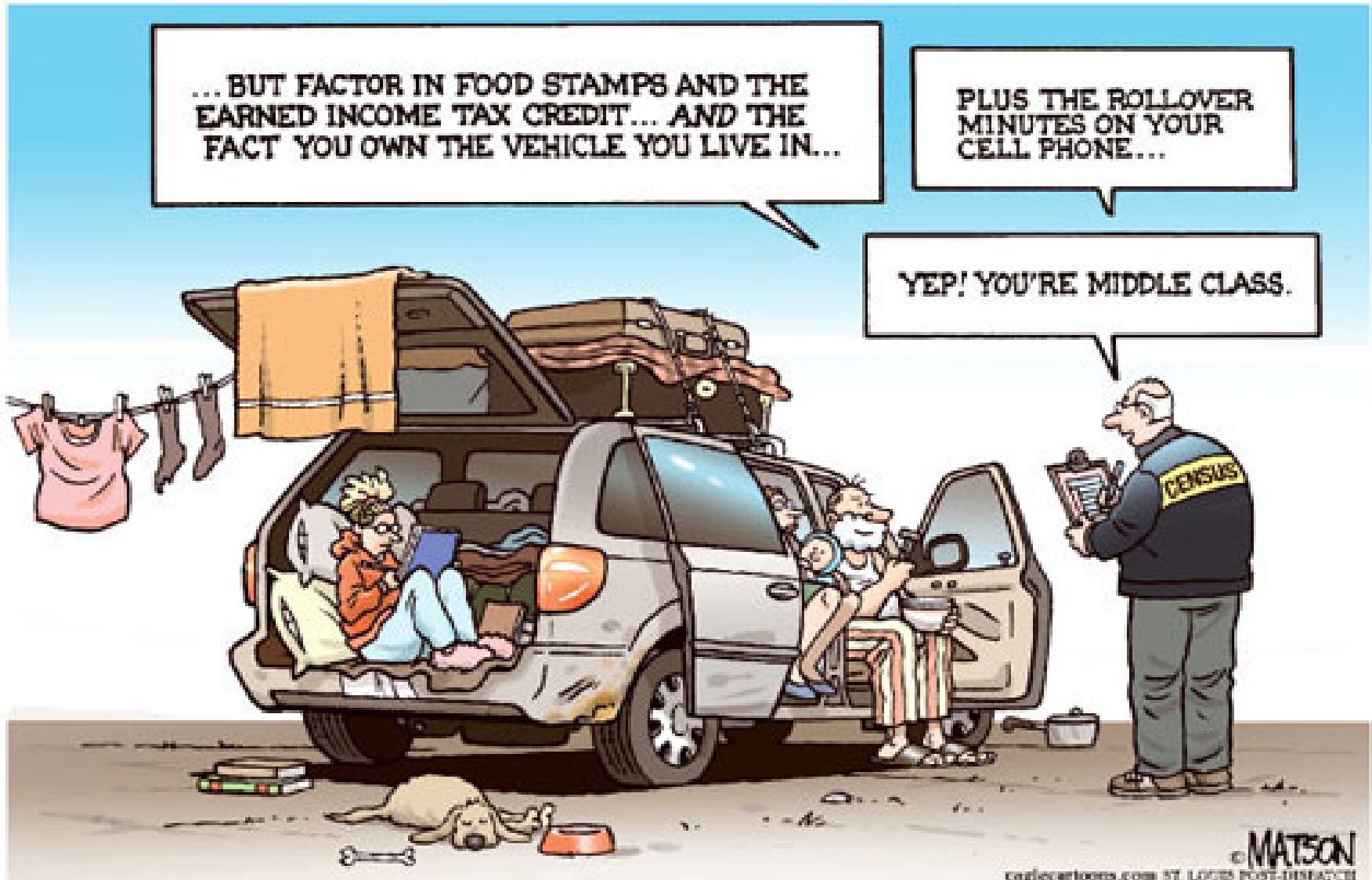


Why study the middle class?

- Instability of economies and societies such as in the Arab countries are better understood by closely examining the middle class.
- With right policies in place, the middle class can be a potential force for change towards the process of socio-economic-political transformation.



Who are the middle class?





How to define and measure the middle class?

- ***Absolute measures:***
 - Individuals with daily per capita income or expenditures between \$2-\$20 per day (Asian Development Bank 2010) or \$10-\$100 per day (UNDP 2013) or between \$2-\$4 or between \$6-10 (Banerjee and Duflo 2008) or between \$2-\$13 (Ravallion 2009).
- ***Relative measures:***
 - People between second, third, and fourth quintiles of income distribution (Easterly 2001), or individuals earning between 75-125 per cent of median per capita income (Birdsall et al 2000).
- ***Combination of both absolute and relative definitions:***
 - People who consume the equivalent of \$10 or more per day, but who fall below the 90th percentile in the income distribution (Birdsall 2007).



The definitions and measures vary across regions

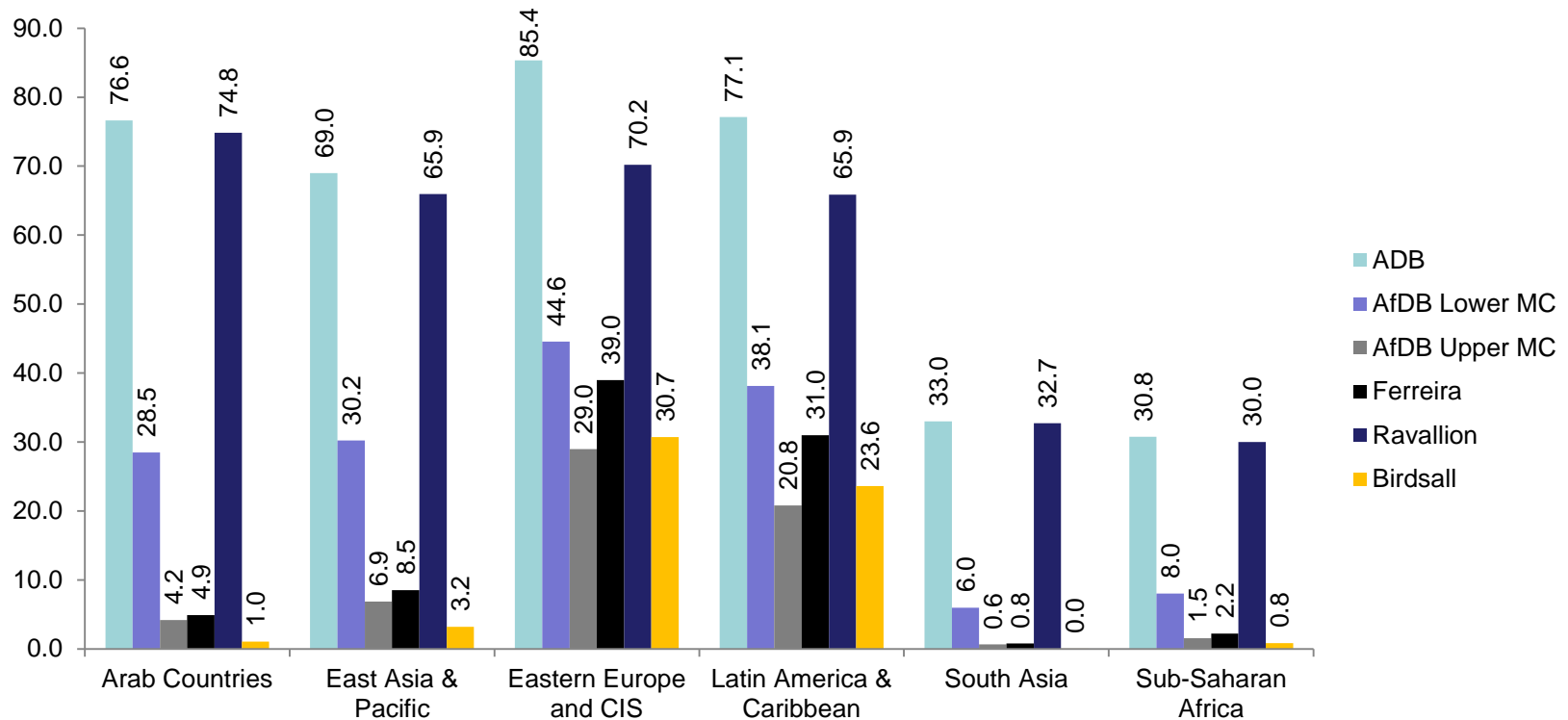
COMMON THRESHOLDS TO MEASURES THE MIDDLE CLASS (IN 2005 PPP\$)

Source	Lower and upper threshold
Developing regions (Birdsall et al., 2000)	$i \in MC \Leftrightarrow .75*Y (P50) \leq Y_i \leq 1.25*Y (P50)$
Developing regions (Birdsall, 2007)	$i \in MC \Leftrightarrow \$10 \leq Y_i \leq Y(P90)$
Developing regions (Ravallion, 2009)	$i \in MC \Leftrightarrow \$2 \leq Y_i \leq \$13$
Asia (Chun, 2010; Asian Development Bank, 2010)	$i \in MC \Leftrightarrow \$2 \leq Y_i \leq \$20$
Africa (African Development Bank, 2011)	$i \in LMC \Leftrightarrow \$4 \leq Y_i \leq \$10$
	$i \in UMC \Leftrightarrow \$10 \leq Y_i \leq \$20$
Latin American and Caribbean (Calva and Juarez, 2011; Ferreira et al., 2013)	$i \in MC \Leftrightarrow \$10 \leq Y_i \leq \$50$
Global (Kharas, 2013; UNDP, 2013)	$i \in MC \Leftrightarrow \$10 \leq Y_i \leq \$100$

Note: $i \in MC$ stands for an individual, i , being part of the middle class; LMC and UMC stand for lower middle class and upper middle class, respectively. \Leftrightarrow stands for “if and only if”; Y_i is the income of individual i ; and P50 and P90 are the fiftieth and ninetieth percentiles of income distribution, respectively.



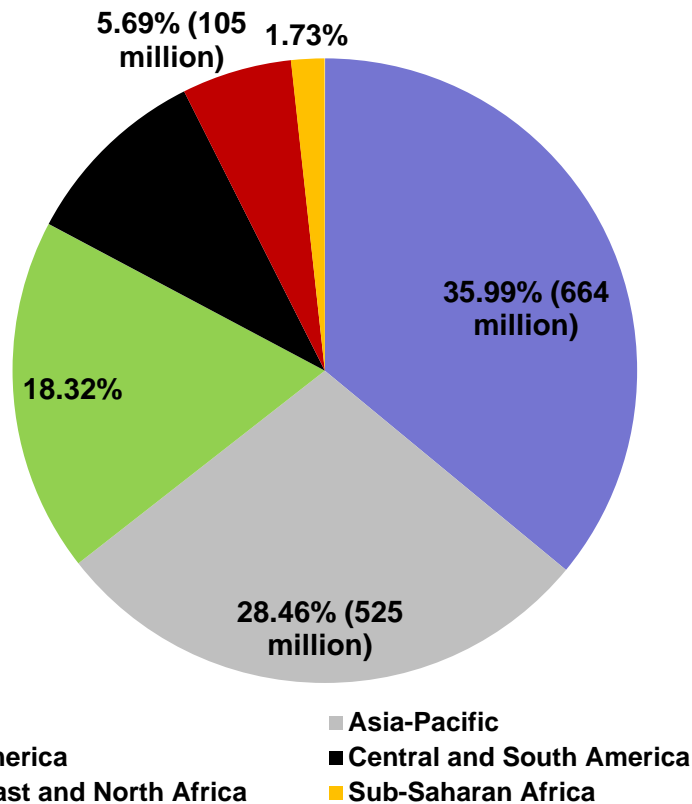
Existing definitions yield wide range of estimates of the middle class size: For instance, it ranges between 1 - 77 per cent in case of Arab countries





Estimates of global middle class

Based on a measure that defines middle class as people earning or spending \$10–\$100 a day, in 2005 PPP terms



- Arab region has 105 million people out of the 1.9 billion global middle class population.
- What does this imply for the Arab region?
- Average per capita of most countries in the region is much lower than the lower cut off of \$10 per day,
- which results in underestimating the middle class in the region, and in other developing regions as well.



Common problems associated with these methods

- Arbitrariness in deciding the thresholds (whether absolute or relative thresholds) in any consumption/income distribution
- Overlooks consideration of country-level or regional specificity in consumption pattern or any qualitative attribute that distinct class structure in a consumption/income distribution
- A fixed line (any absolute threshold) undermines disparity across as well as within countries and may not be applied to compare welfare or classes
- Inherent biases of using purchasing power parity (PPP) in deciding the thresholds for the purpose of international comparison – similar as fixing a global poverty line of \$1.25 PPP
- Economies with different levels of per capita income, expenditure patterns, life style, makes it difficult to find a unique definition of the middle class applicable to all countries.



An alternate approach to measuring the middle class

- Conceptual questions
 - The degree of choice that households in each society have over how they spend their budget is a critical factor in deciding their social class. For example, the consumption basket that provides calorie requirements for daily consumption is used to set poverty line in a specific society. Can this normative approach be extended to define the middle class threshold in each society?
 - Class is also associated with sociological aspects and it goes beyond just an economic construct in any society. What are the elements that best proxy social status -- education, occupation, wealth or any other characteristics?
- We translated these concepts to an empirical exercise in defining the middle class using information from household survey expenditure of Egypt and other Arab countries, taking into account country specific assessments. We also stayed away from the controversy of using \$PPP.



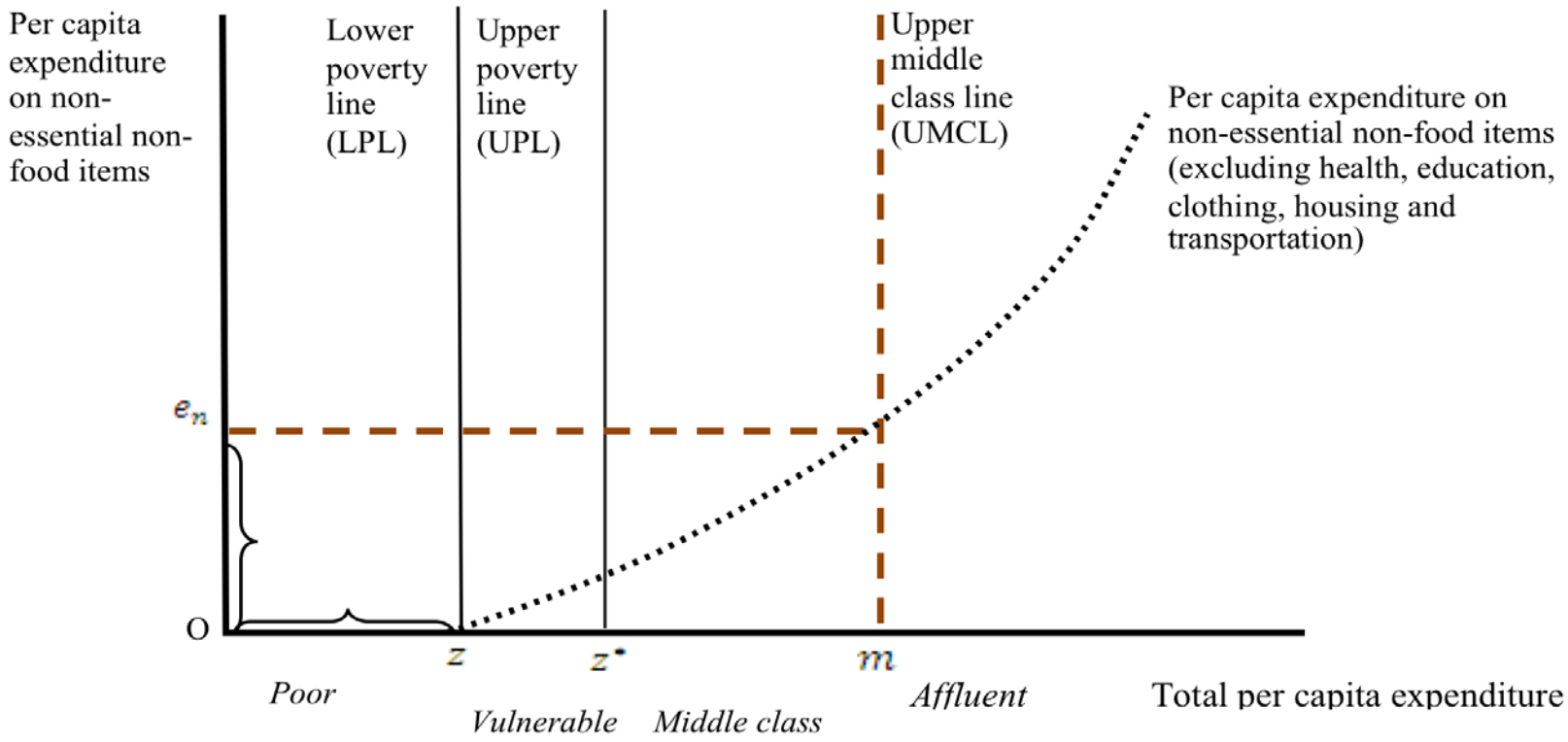
Economic definition

- The economic perspective assigns the middle class status to *the group of individuals whose level of consumption expenditure lies above an appropriately defined upper poverty line but whose level of expenditure on non-essential non-food items is less than the value of a lower poverty line.*



Economic definition

Defining the middle class on the basis of consumption expenditure of non-essential goods and average per capita expenditure





Sociological definition

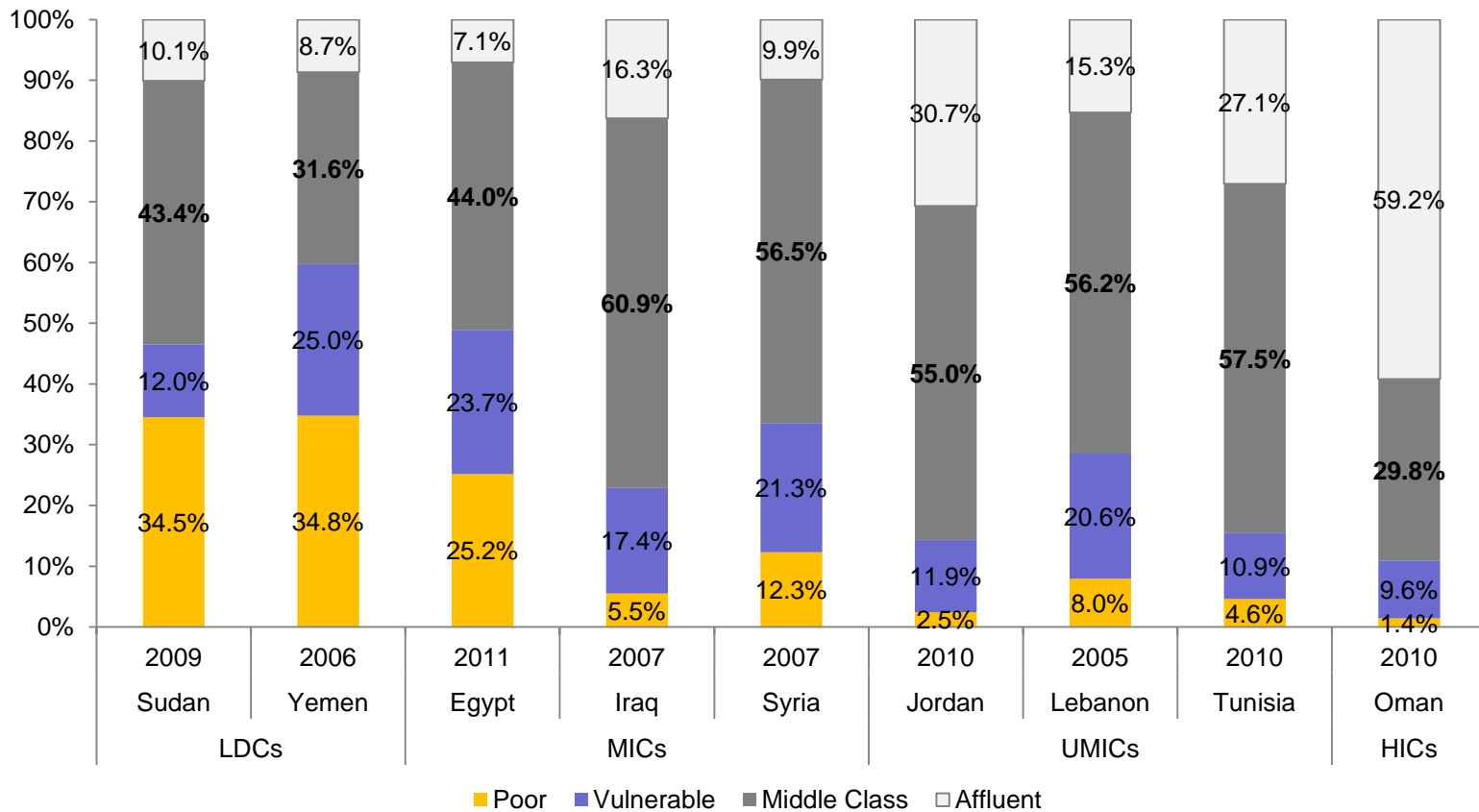
- Closer to the sociological perspective, *the middle class are those who are employed within the formal private or public sectors within one of the ‘white collar’ occupational categories and who possess secondary or higher education degree. We call them “professionals”.*



Results

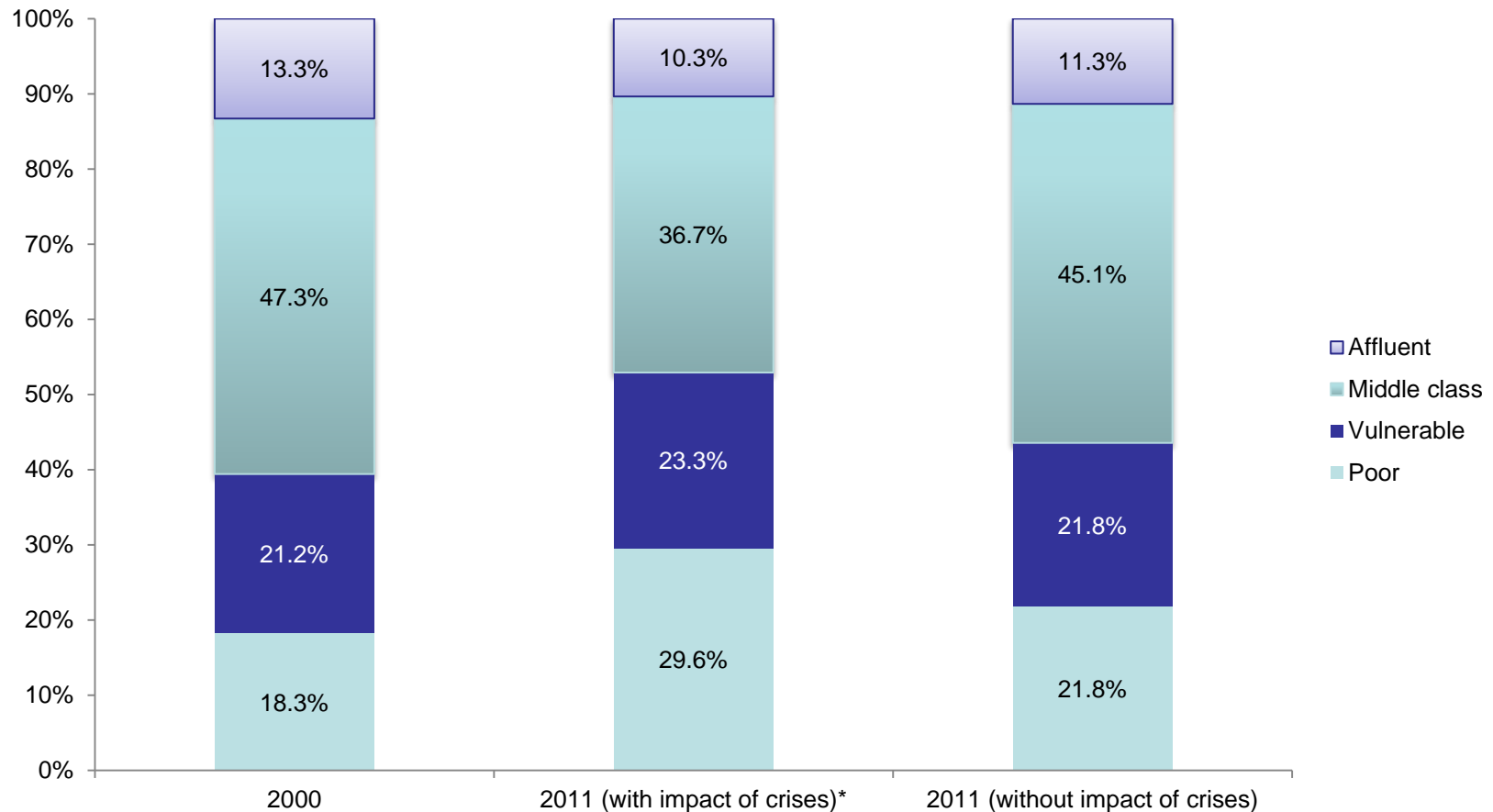


Middle class (by economic definition) are the largest population group in most Arab societies





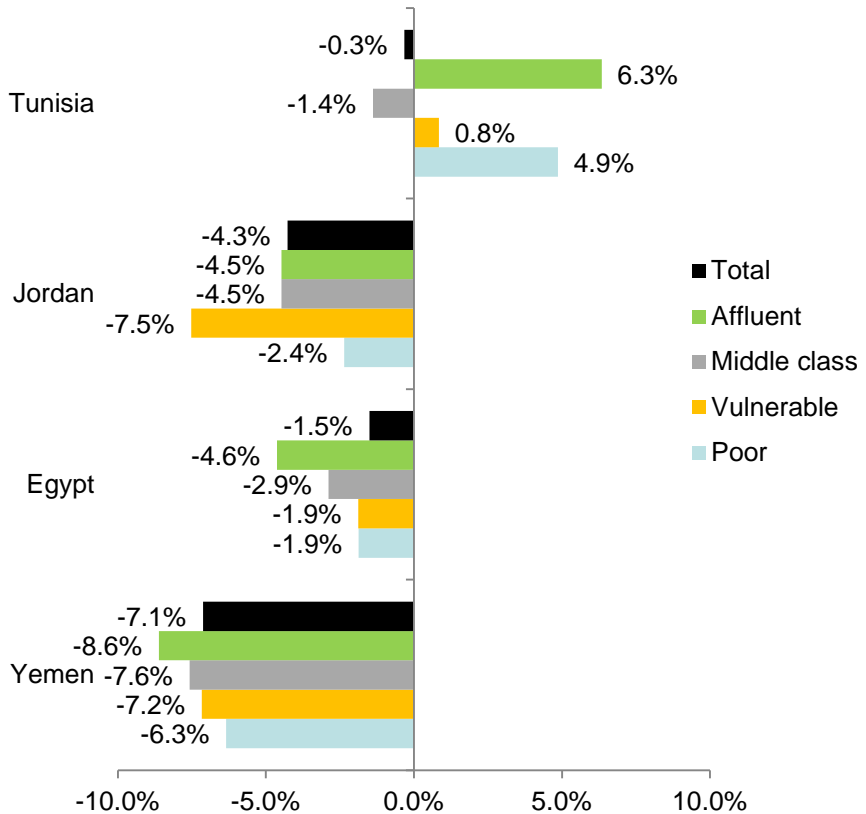
Middle class size in the Arab world remained almost unchanged from 2000-2011 but pattern changes after that



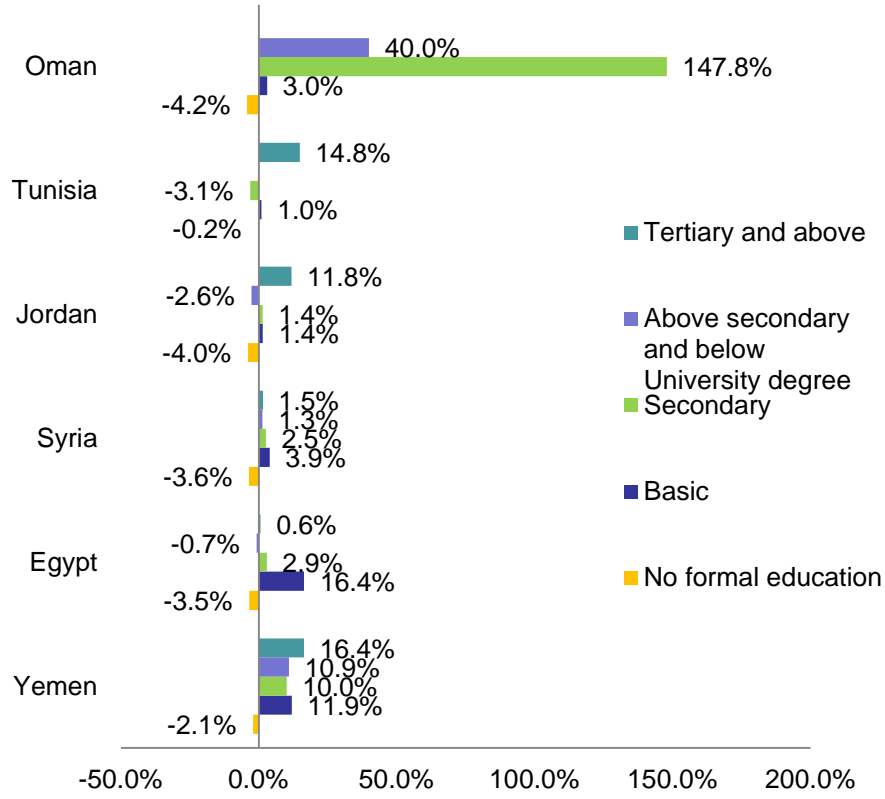


The middle class are more capable now than in 2000

Annual average percentage change in incidence of deprivation to standard of living



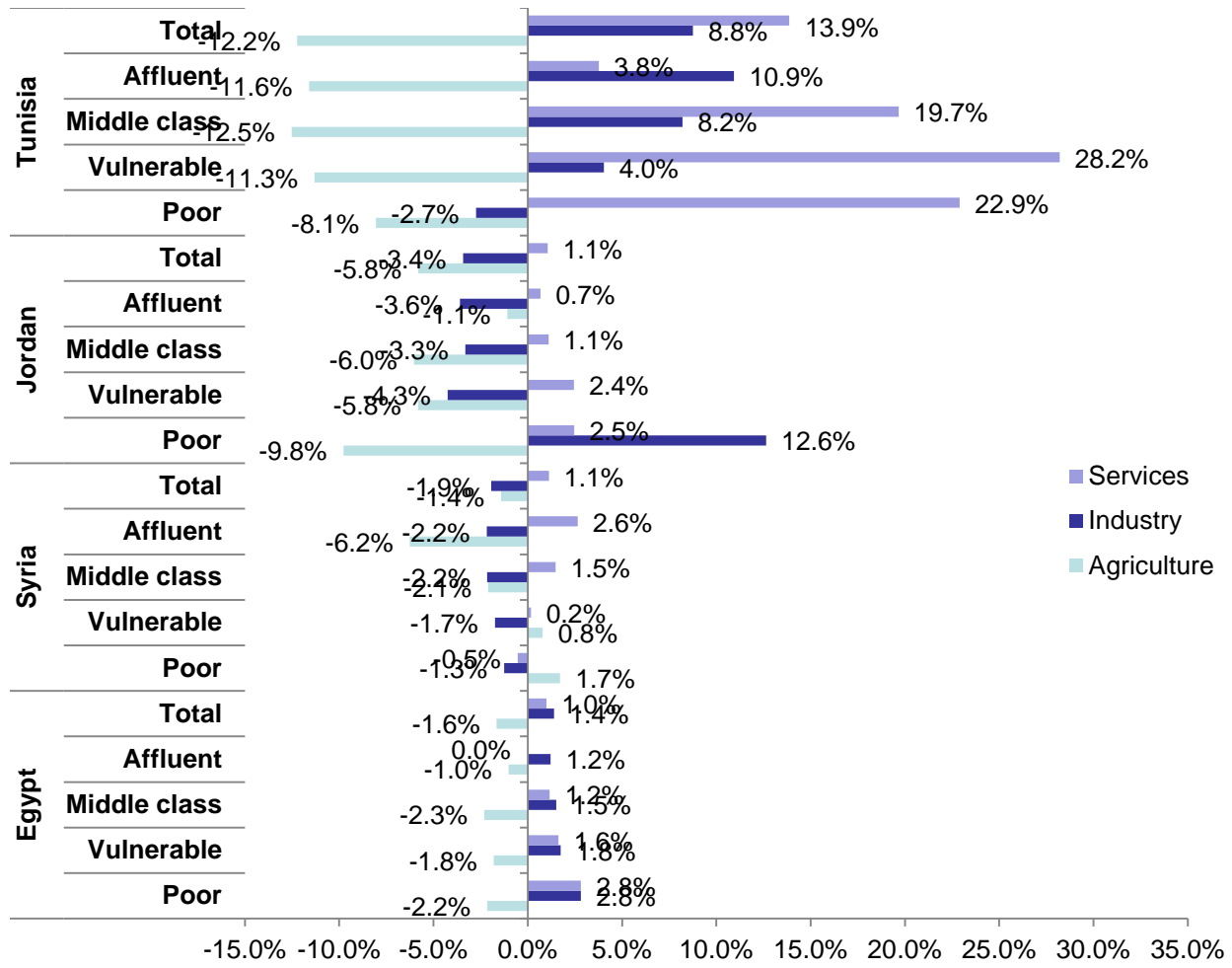
Annual average percentage change in share of middle class across educational levels





Percentage change in the middle class population by economic sectors, years closest to 2000-2011

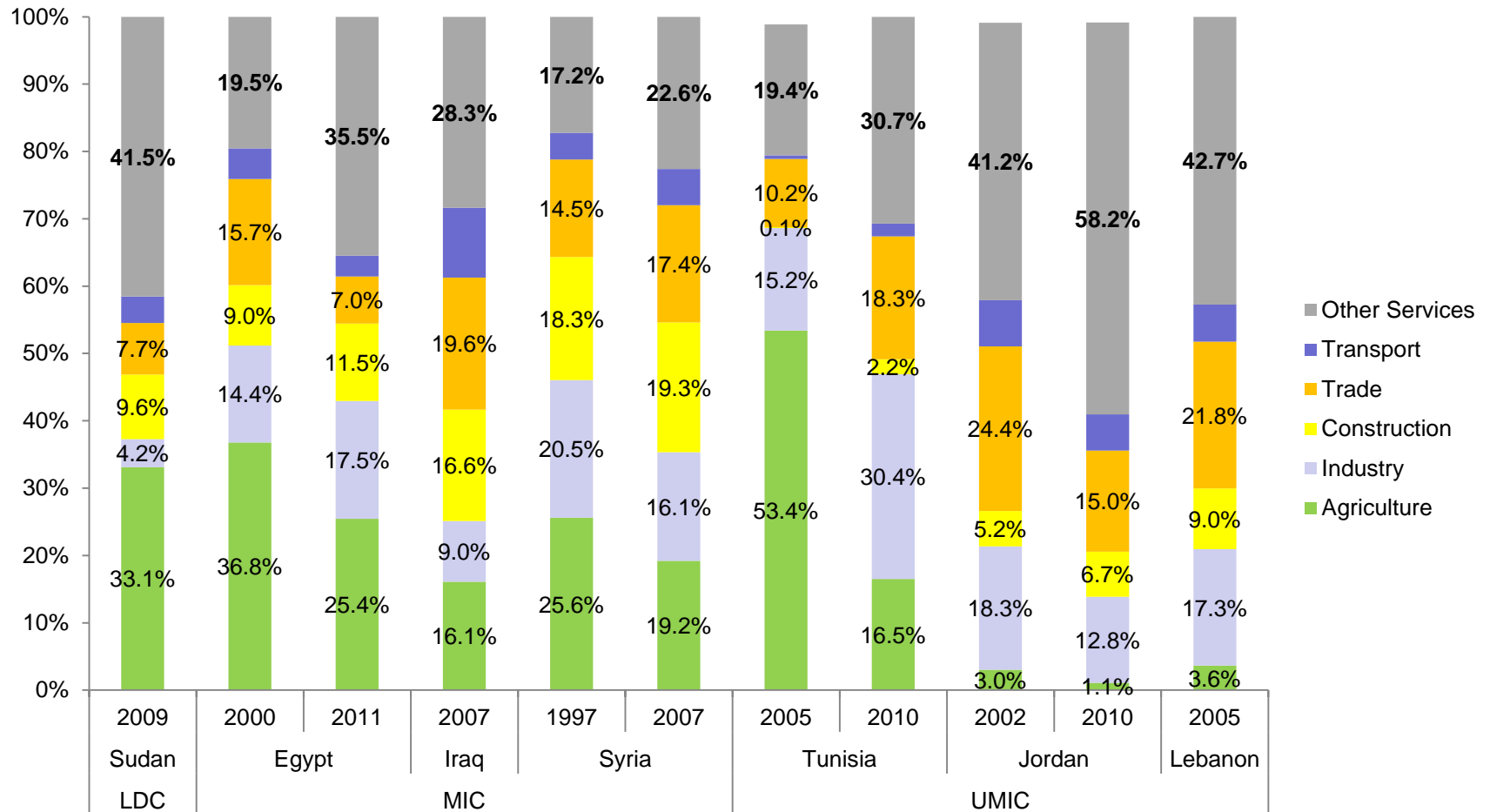
The middle class moved away from agriculture to services, less to industry, but most of the services are in the low-value added sectors





Growing labor market informalization, affecting middle class youth (as well as women)

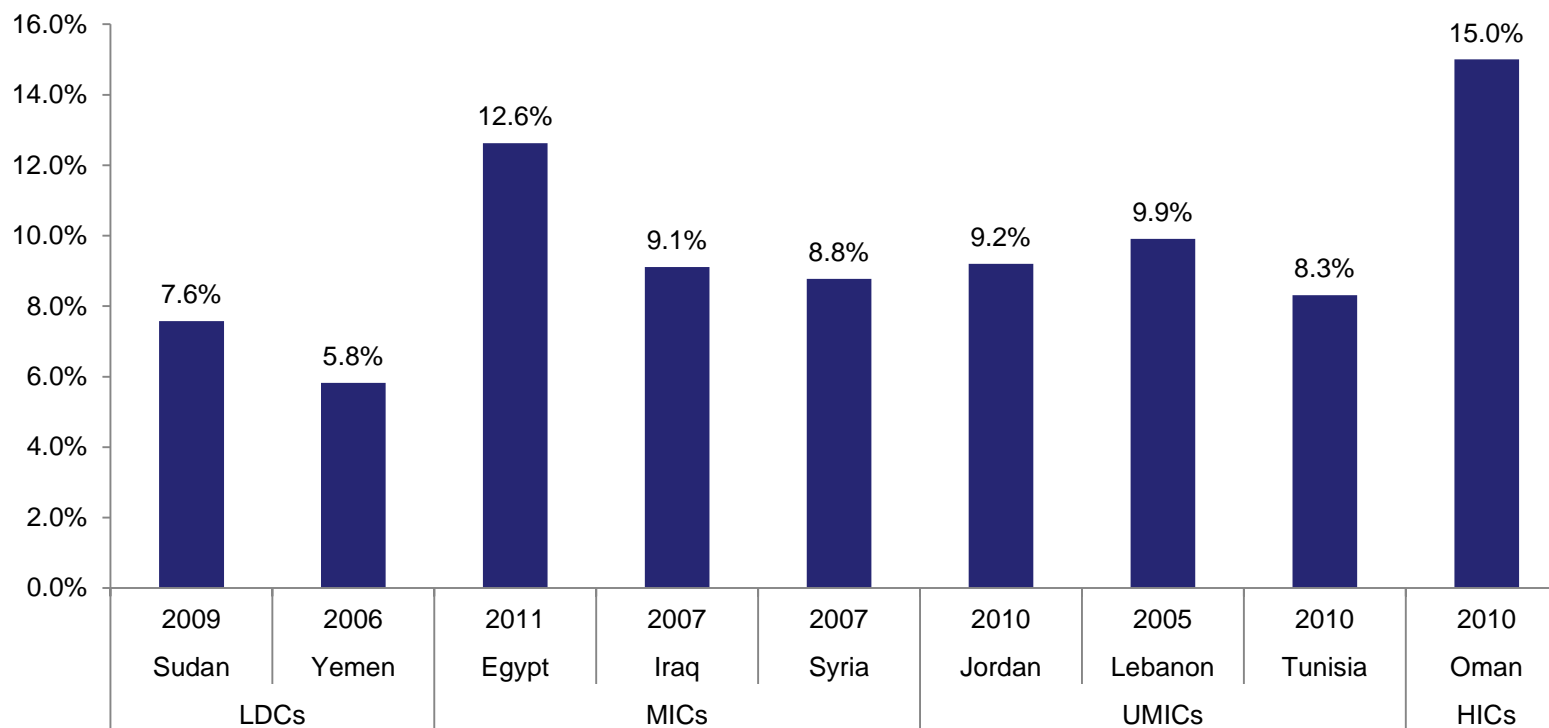
Occupation of youth in the middle class households





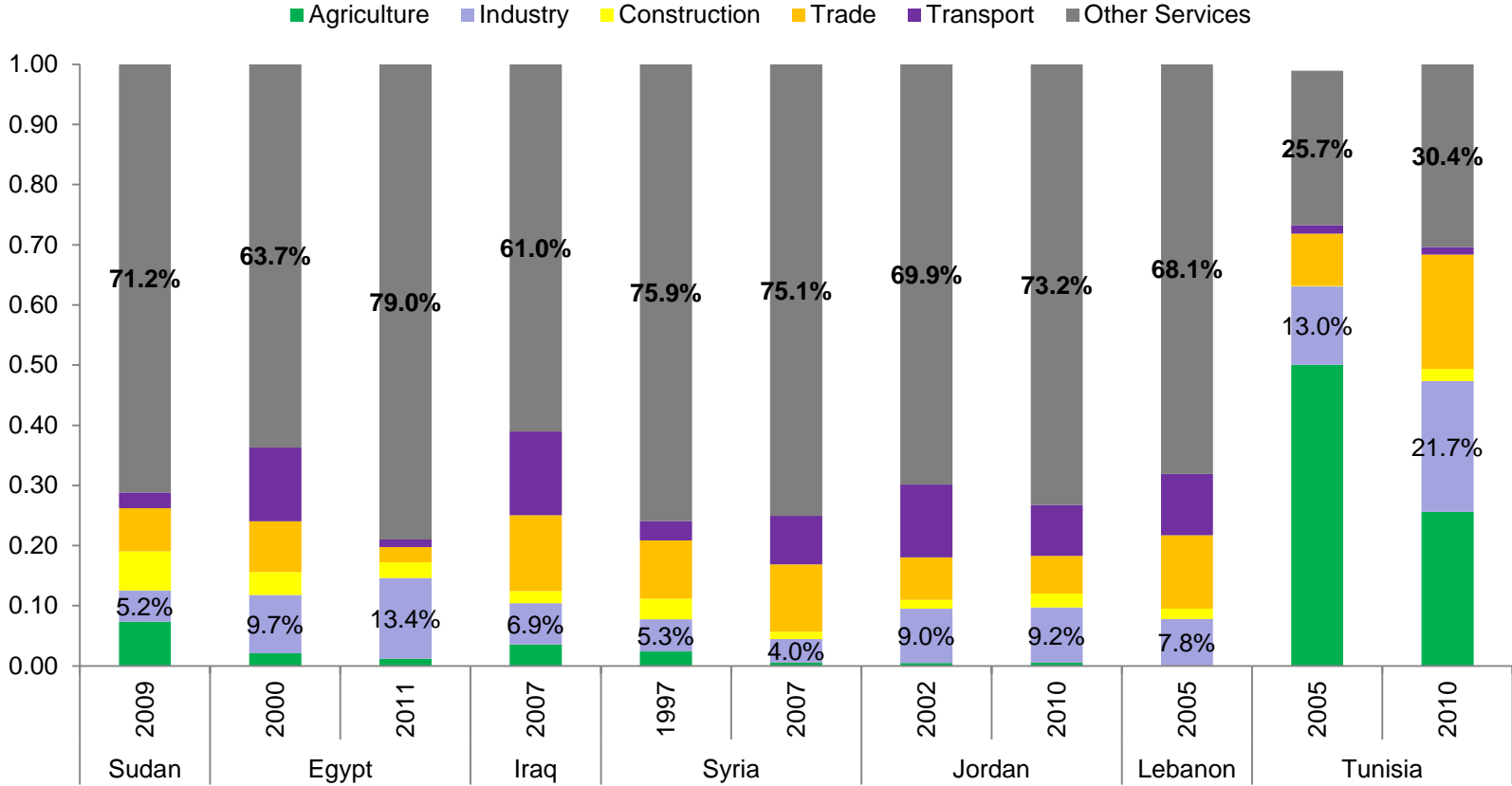
Professionals remain a significant minority

The share of professionals in population aged 15 and above



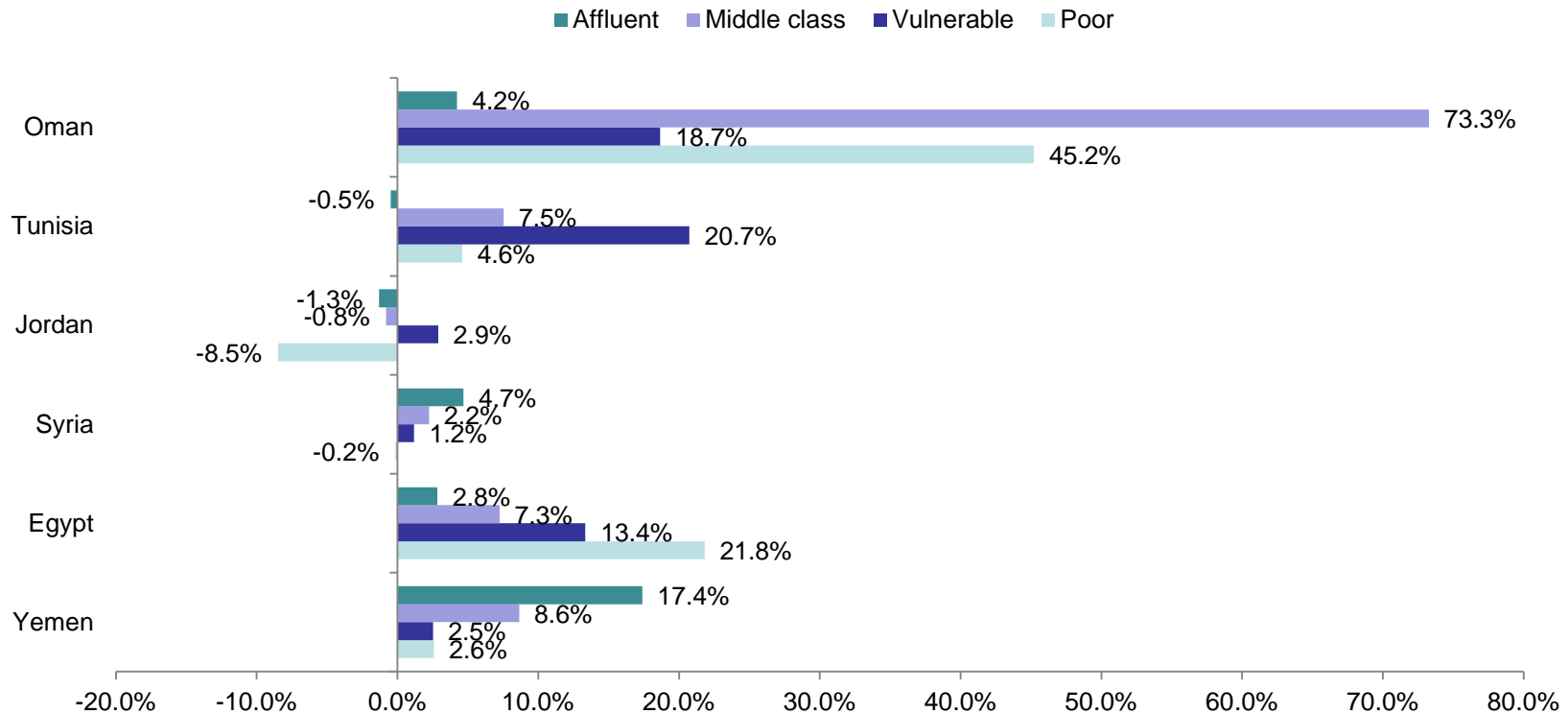


Distribution of professionals across economic sectors, increasing share of 'other services'





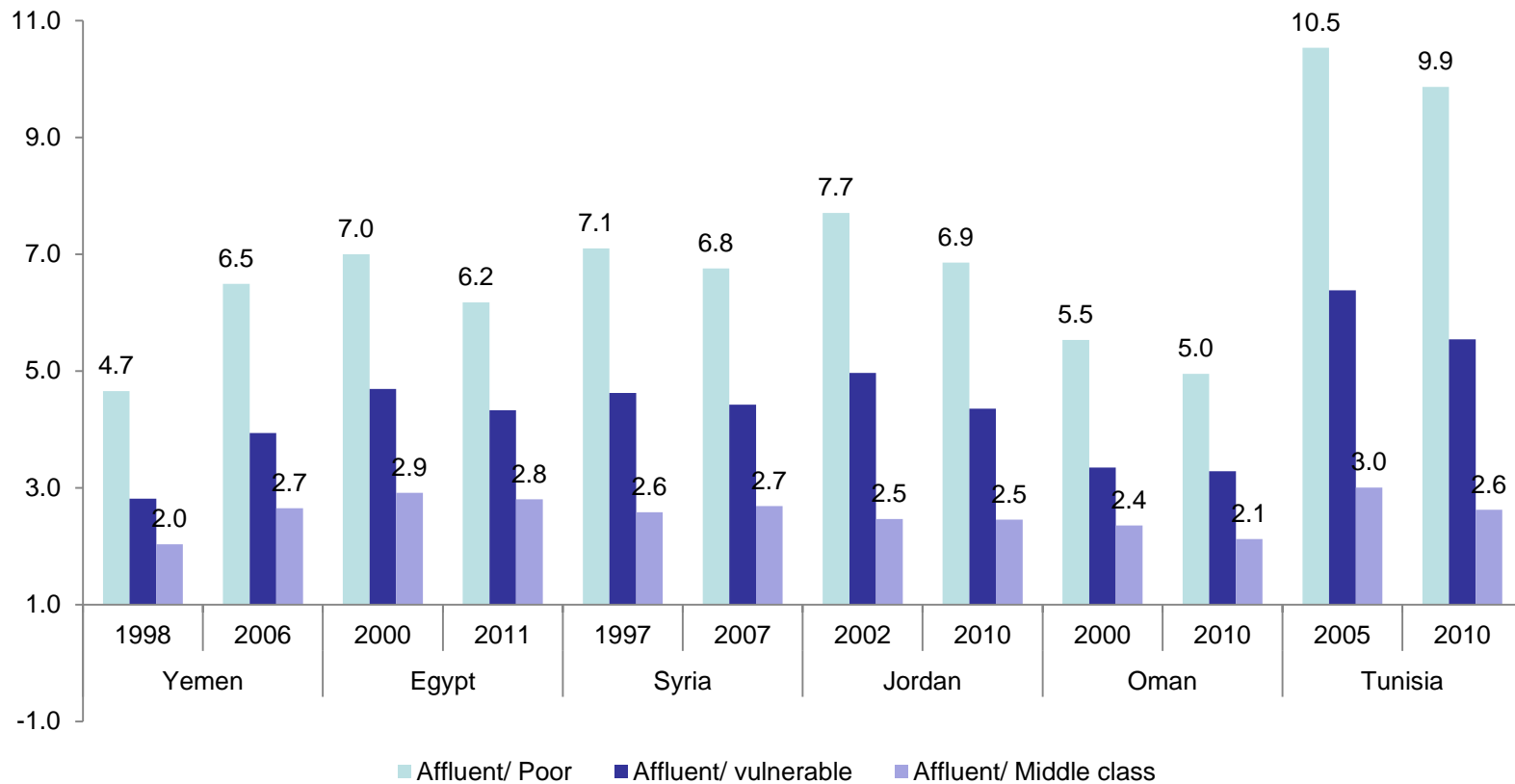
The share of professionals increased among the poor and the vulnerable in most countries, years closed to 2000-2011





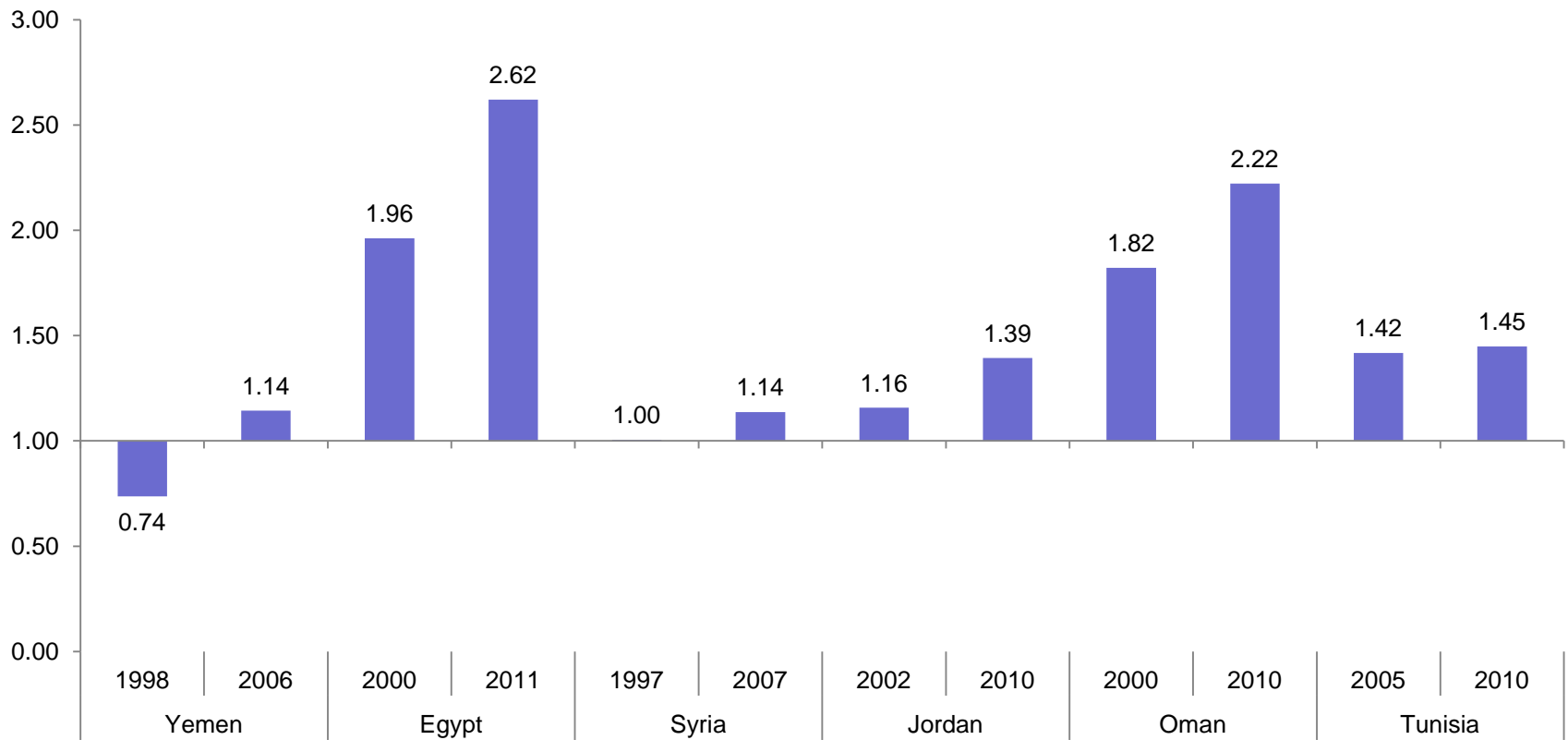
Stable or slight decline in inequality between economic classes, years closest to 2000-2011

Ratio between mean per capita expenditure of affluent and respective population classes





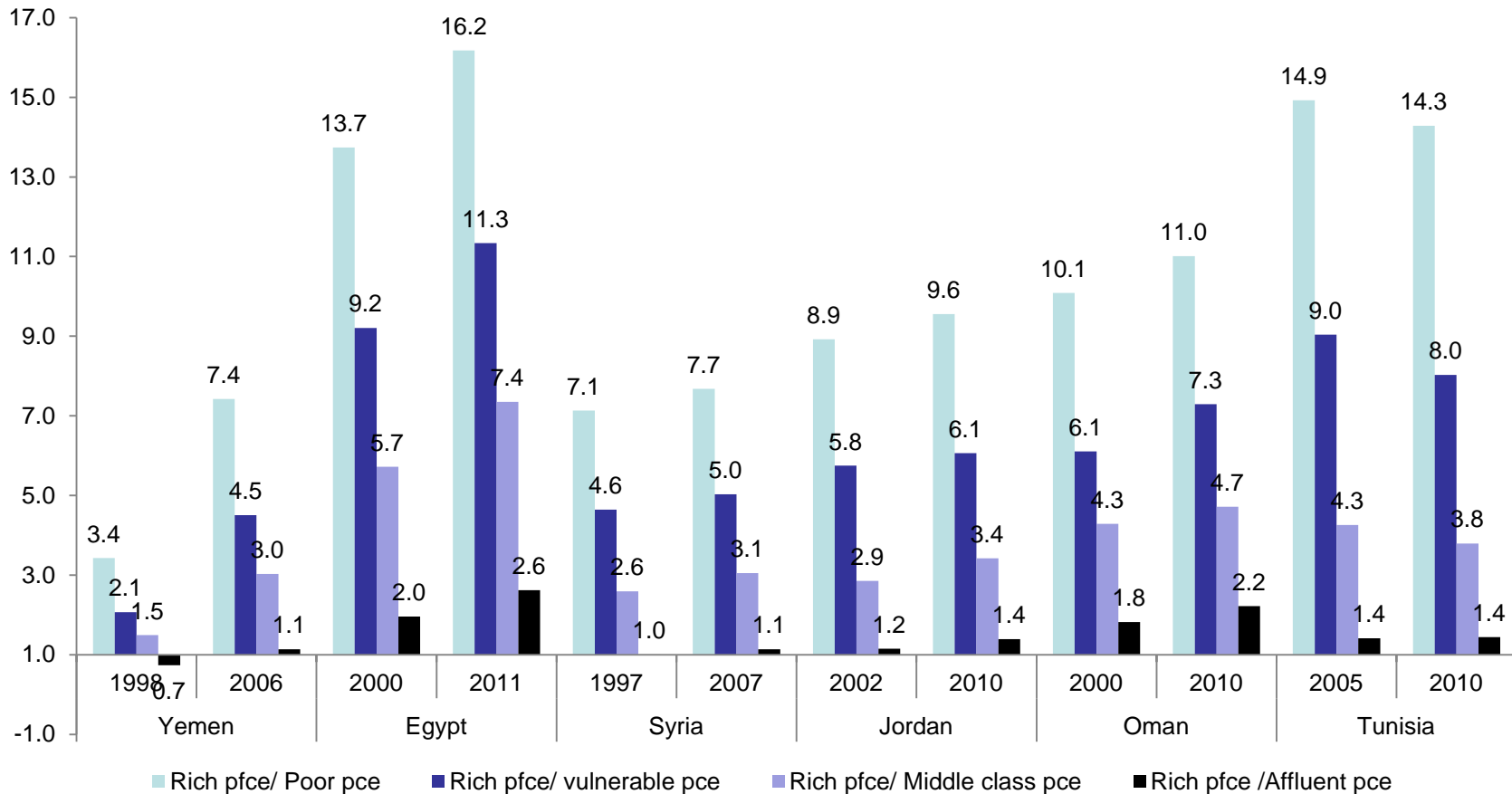
Ratio between national per capita household final expenditure and survey based per capita household consumption expenditure





Increasing inequality between the top and the rest, years closest to 2000-2011

Ratio between per capita expenditure from national household final expenditure and survey based household expenditure per capita





Conclusion

- The results based on the new approach to measure the Arab middle class are interesting.
- From 2000 to 2011, the middle class share among the Arab population remained largely stable, but declines sharply by taking into account the negative impact of crises in the region.
- The share of professionals remained a minority though their size increased moderately during 2000-2011.
- There has been a shift from agriculture to service sector jobs for the middle class but they are highly concentrated in the “other services” category, even among professionals, which tend to be low value-added or informal in nature.
- The evidence on increase in the share of professionals among the poor and the vulnerable indicates pauperization of the professionals.
- Economic growth has not proportionately benefited the poor and middle classes in some countries, such as Egypt.
- Increase in inequality between the top bracket of population and the other population classes during 2000 and 2011 shows the signs of non-inclusive growth processes in the Arab societies.



Thank you!