

# Economic Mobility and the Rise of the Latin American Middle Class



2012 Flagship Report

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# Why a Report on Mobility and the Middle Class?

Concepts and Measurement

Mobility within Generations

Mobility across Generations

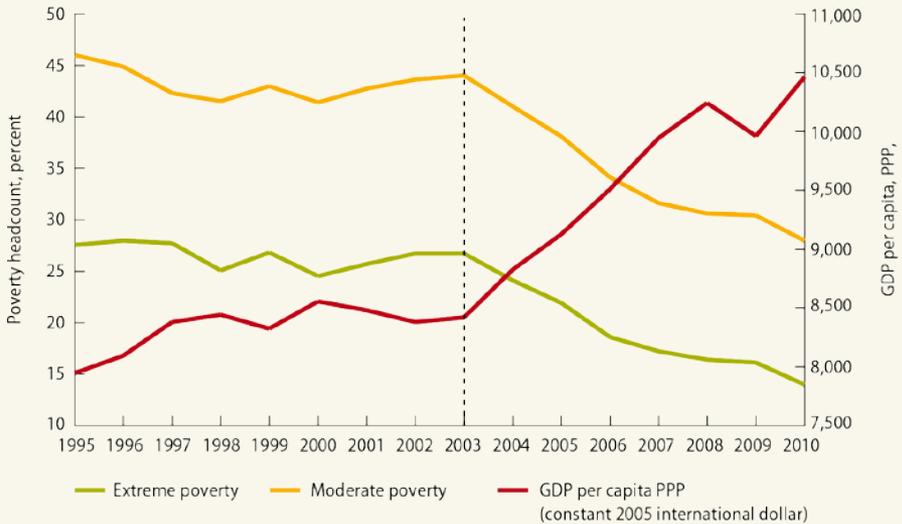
The Rising Latin American and Caribbean Middle Class

The Middle Class and the Social Contract in Latin America

Conclusions and Policy Implications

# The stunning but by now well-know facts...

Per capital income and moderate and extreme poverty in Latin America, 1995–2010



Change in the Gini index, selected Latin American countries, 2000–10





## ...raise obvious questions

- Who moved out of poverty, and who stayed behind?
- How much vulnerability to reversals of fortune remains?
- How important is family background in determining one's chances of success?
- Is there a new middle class? How does it look, think, and act?
- Is the middle class helping improve government services and democratic institutions?



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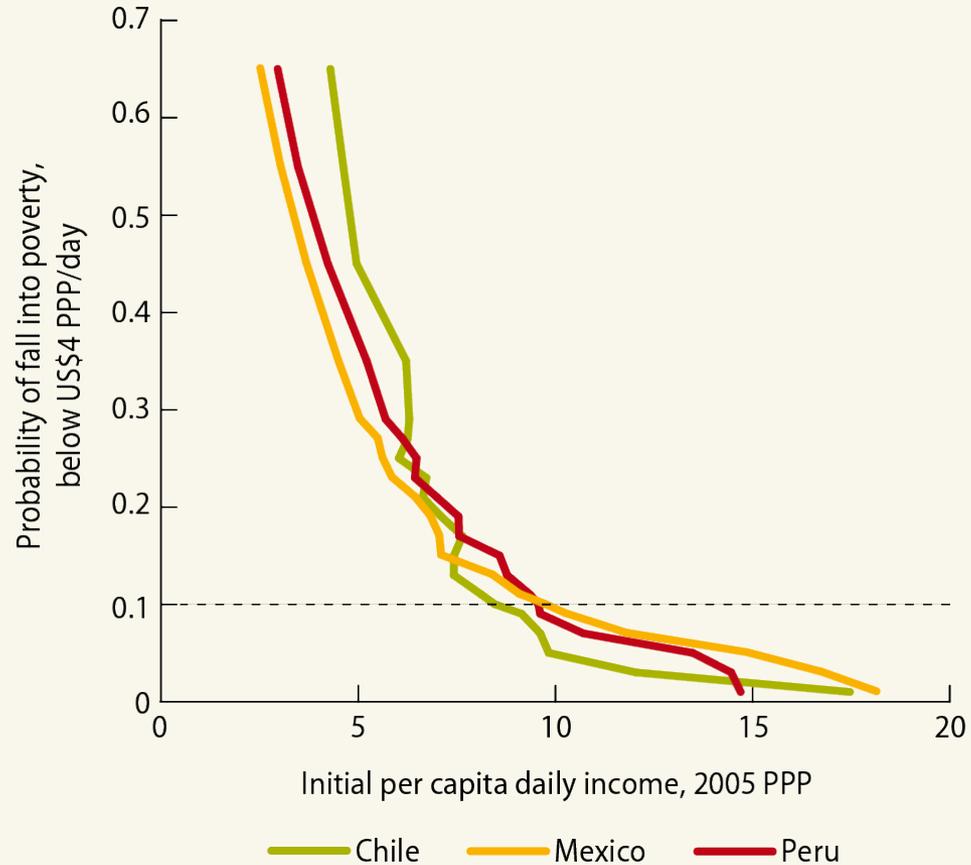


# Key concepts and measurements

- Mobility
  - Intra-generational: movement from one economic class to another
    - Focus is on individual income growth
  - Inter-generational: extent to which family background matters for children's (educational) success in life
    - Focus is on equality of opportunity
- Middle class
  - The non-rich but “economically secure”
  - People with incomes such that they have a low probability of falling into poverty

An economic security approach to defining the middle class

## Income-based vulnerability to poverty in Chile, Mexico, and Peru in the 2000s

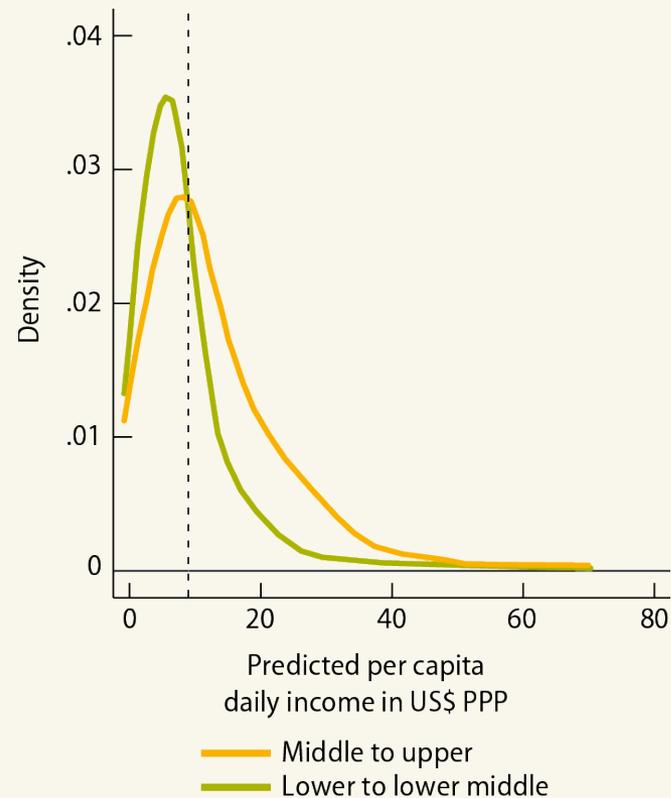


We define the middle class as people with per capita income between **USD 10** and **USD 50** per day (in PPP terms)

## A meaningful and robust definition

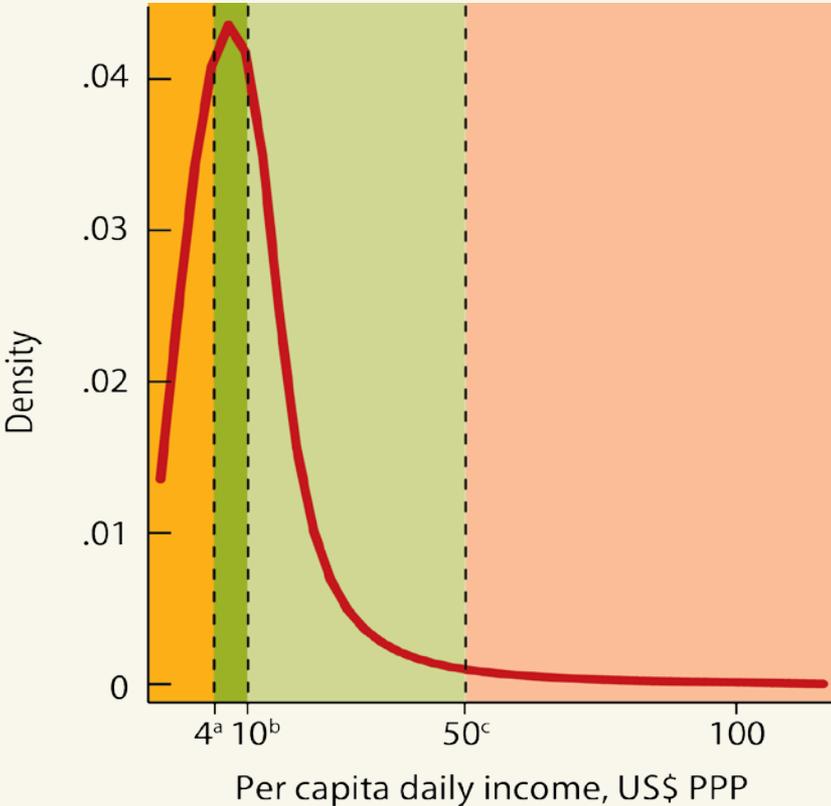
- Independent validation from a subjective approach, using five *Ecosocial* surveys by Cieplan (and corresponding household surveys)

Distribution of self-reported class status in Mexico, 2007



There are four classes in the LAC-wide income distribution

### Four economic classes, by income distribution, in selected Latin American countries



- Poor
- Vulnerable
- Middle Class
- Upper Class



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# LAC experienced high levels of upward mobility in the past 15 years...

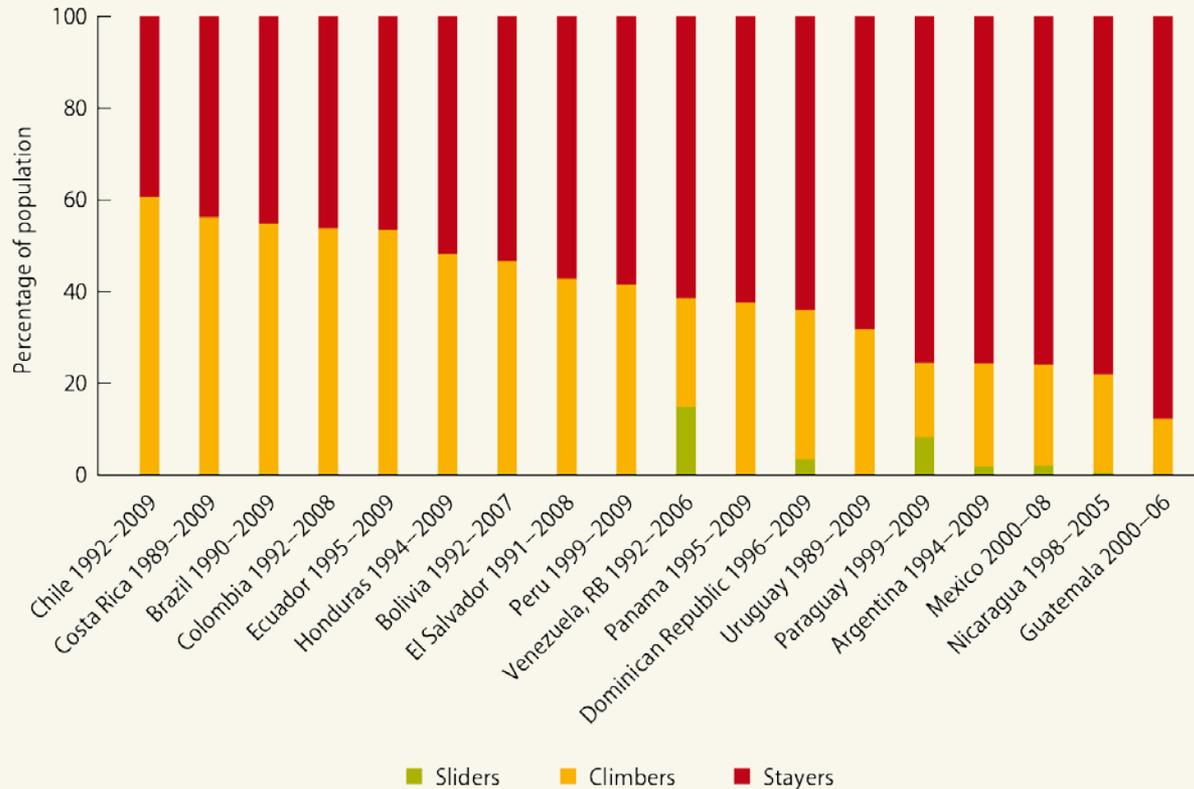
Intra-generational mobility in Latin America over the past 15 years (circa 1995–2010)

*percentage of population*

	Origin (c.1995)	Percentage moving to (c. 2010)		
		Poor	Vulnerable	Middle class
Poor	45.7	49.2	46.0	4.8
Vulnerable	33.4	2.7	42.8	54.5
Middle class	20.9	0.5	2.4	97.1

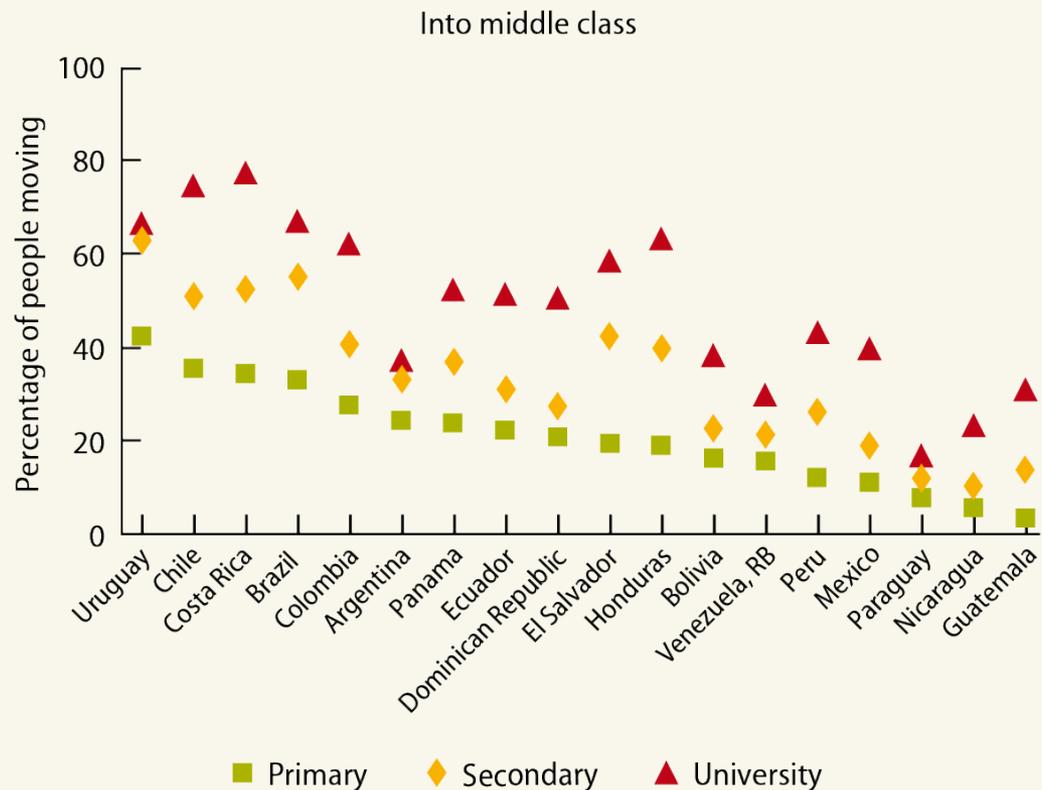
# ...but there is considerable within-region heterogeneity

Intra-generational mobility in Latin America, by country



# Education is a strong predictor of ascending into the middle class

Upward mobility conditional on initial education, by country





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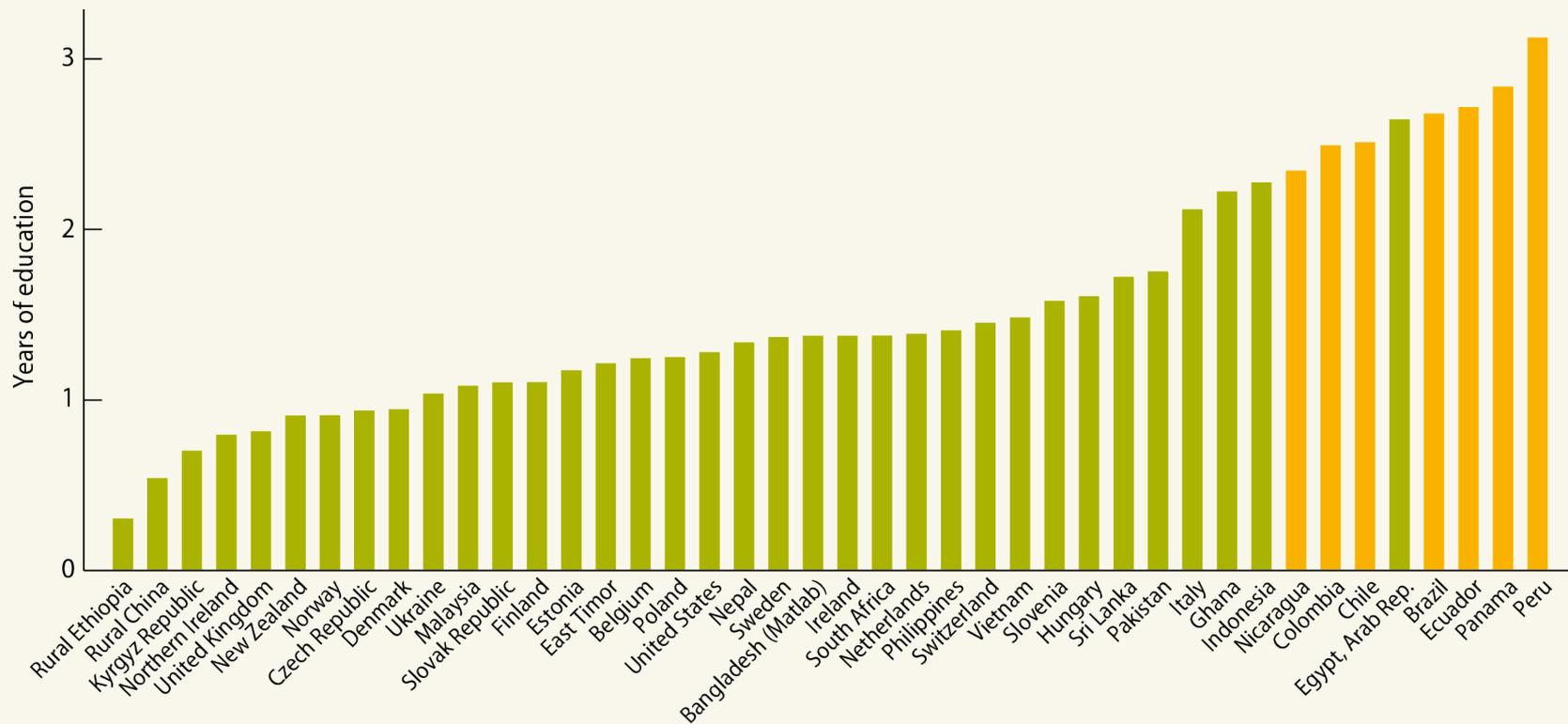
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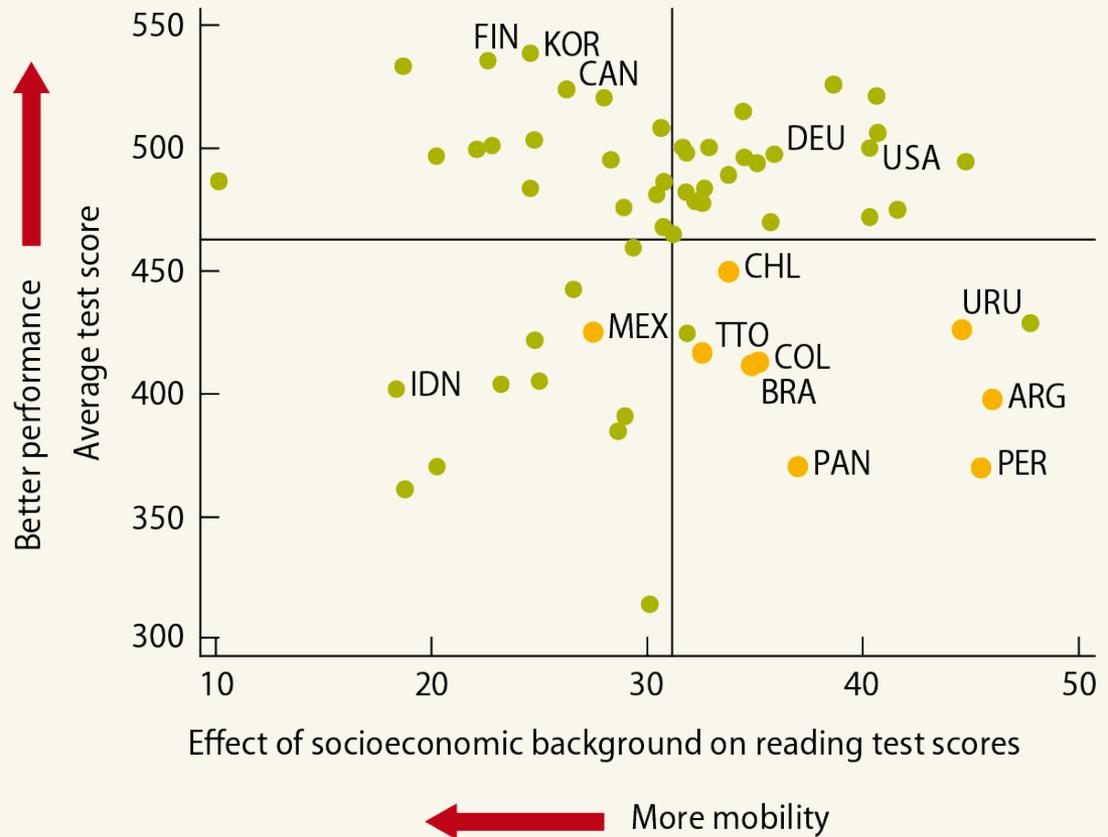
# Intergenerational mobility (in educational attainment) is low in LAC...

Impact of parental education on children's years of education, selected countries

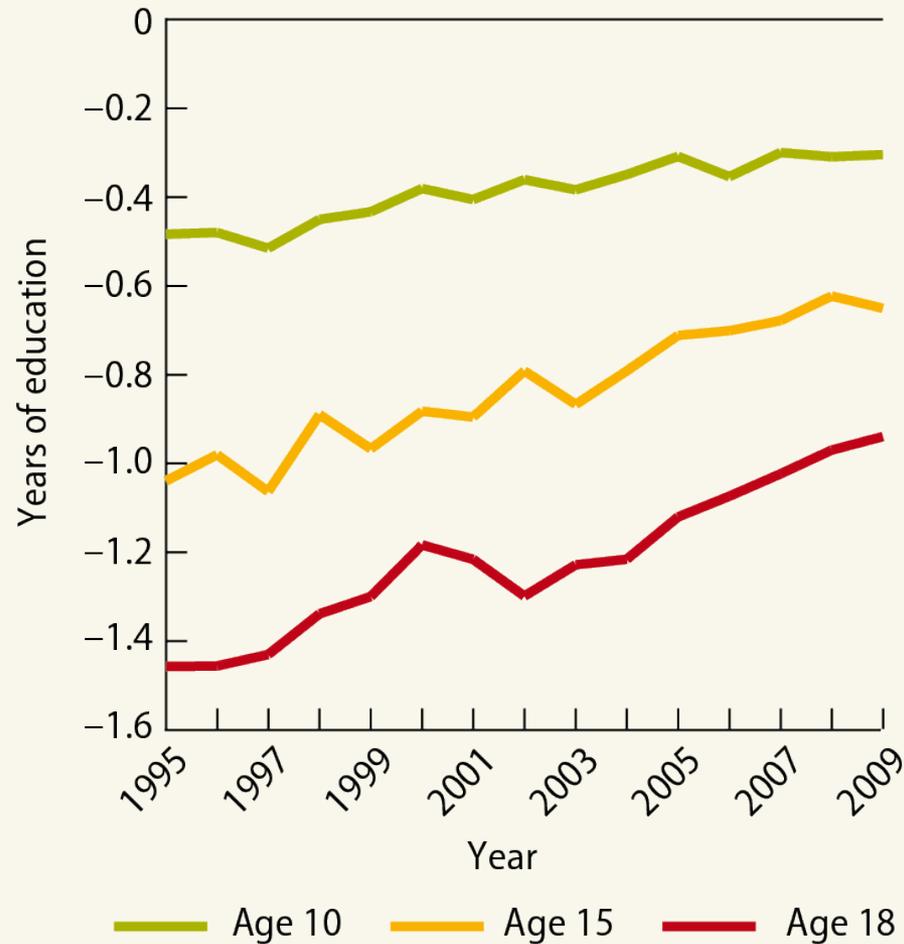


...and if we look at achievement, things do not look much better

Relationship of average PISA test scores and intergenerational mobility across 65 countries and economies, 2009



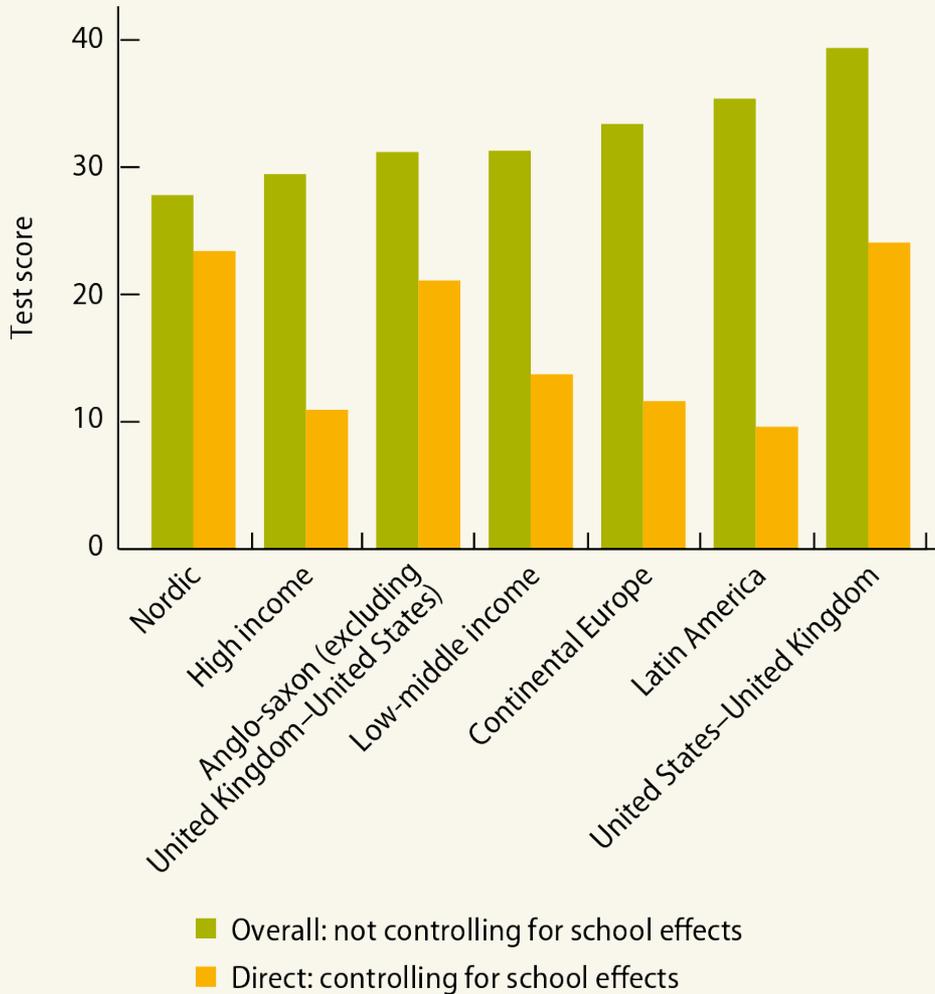
## Differences in the educational gap between the top and bottom income quintiles in Latin America, 1995–2009



There have been slight improvements over the last two decades...

...but family background remains too important (and some of that effect operates through school sorting)

### Direct and overall impact of parental background on children's test scores





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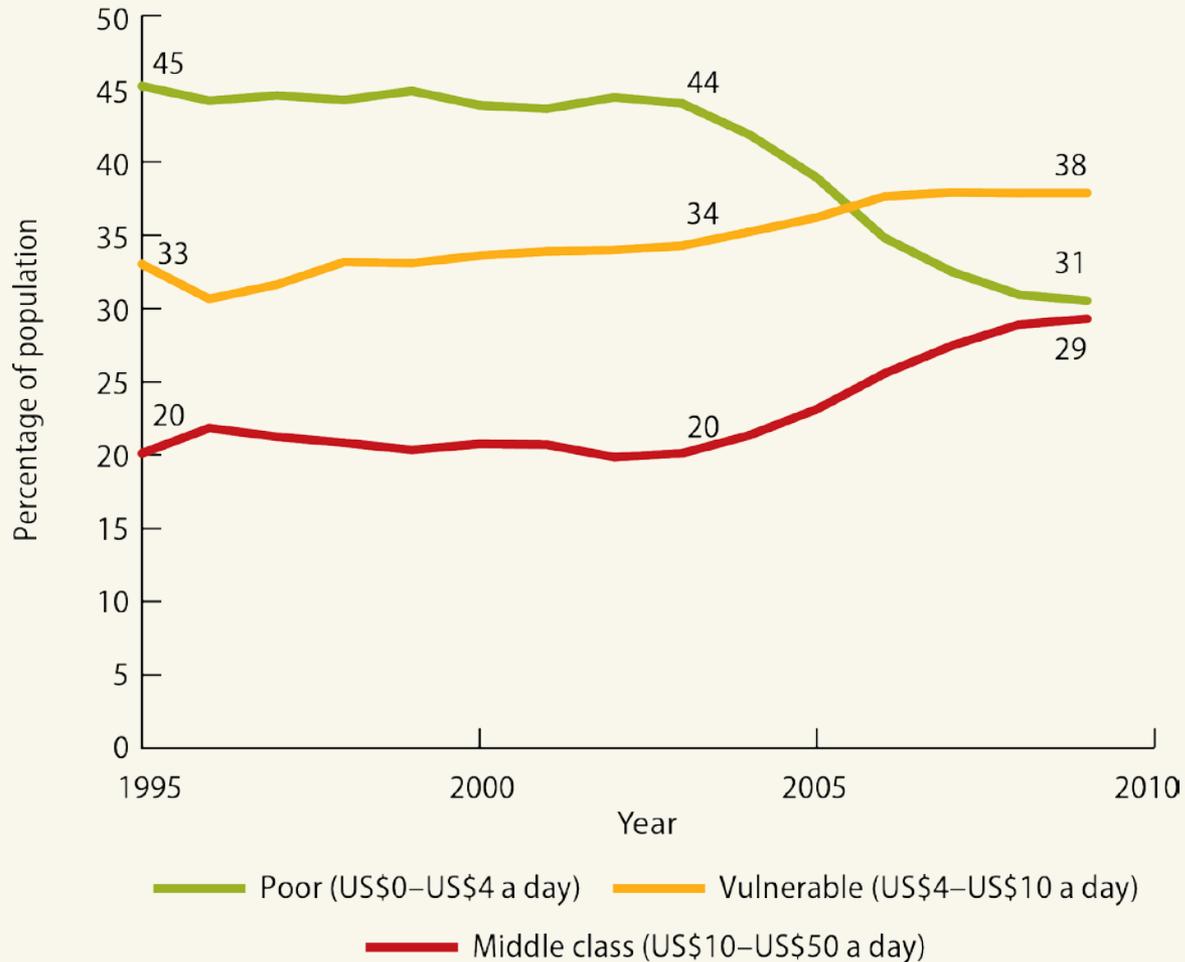
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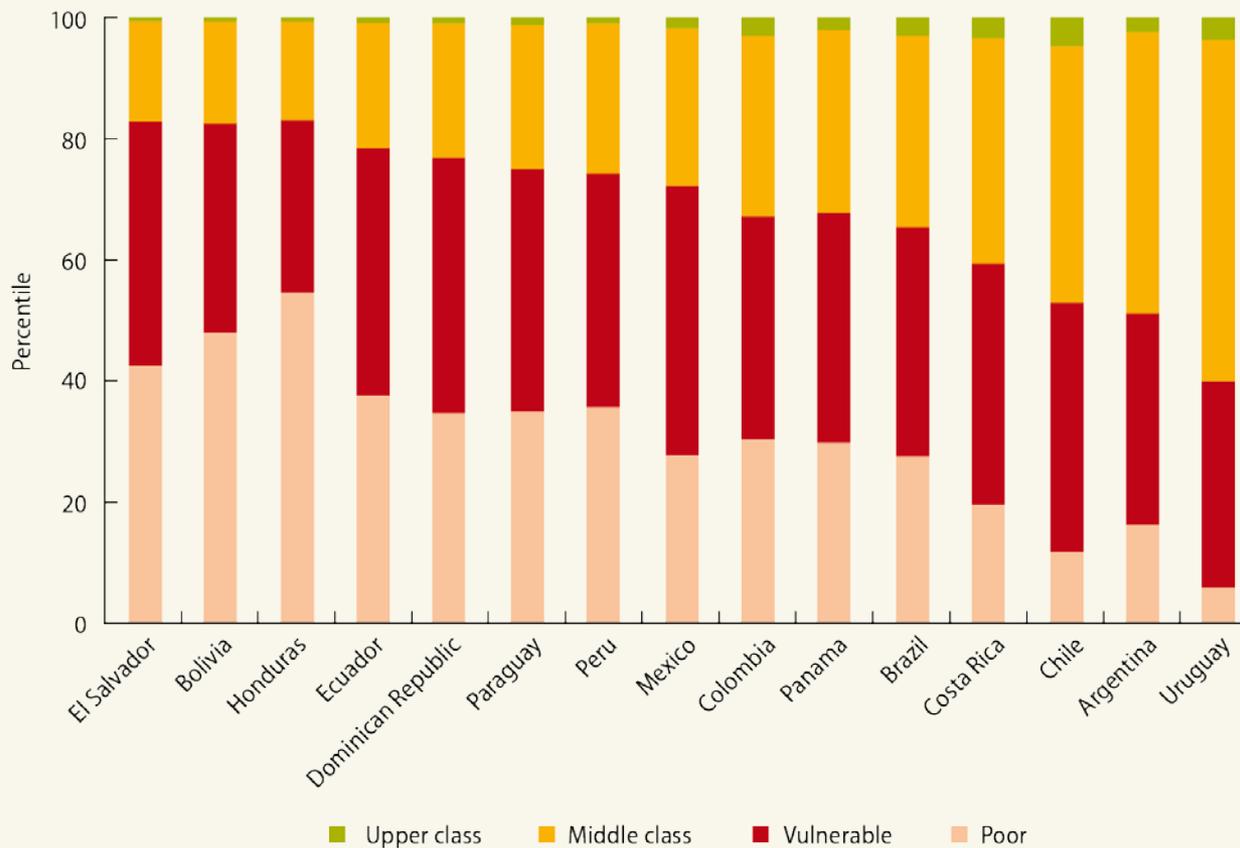
# Latin America is in the process of becoming a middle class society...

Middle class, vulnerability, and poverty trends in Latin America, 1995–2009



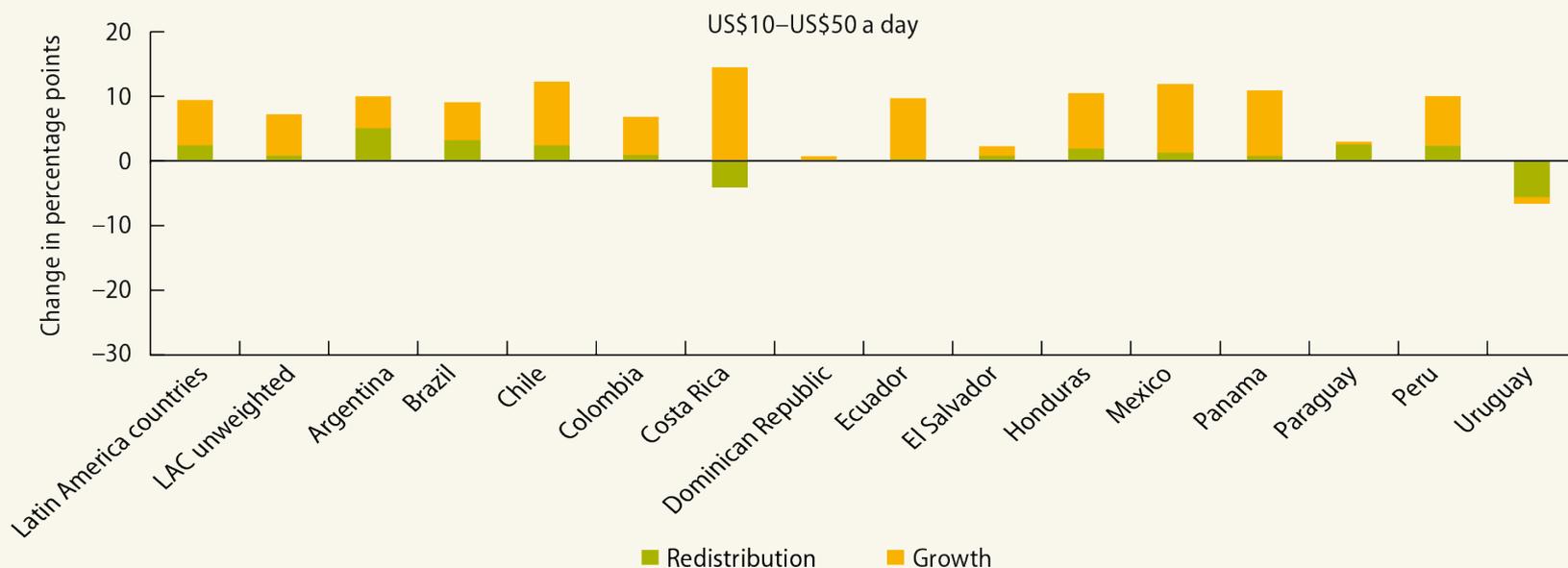
# ...although strong heterogeneities persist

Class composition in Latin America, selected countries, 2009



# Growth played the leading role in feeding the ranks of the middle class – but falling inequality also helped

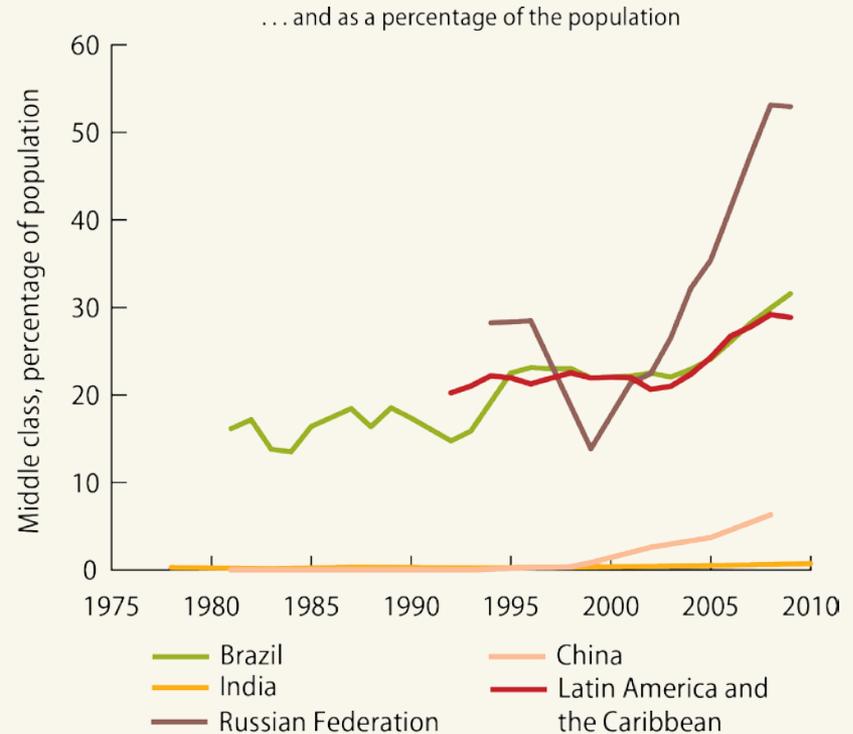
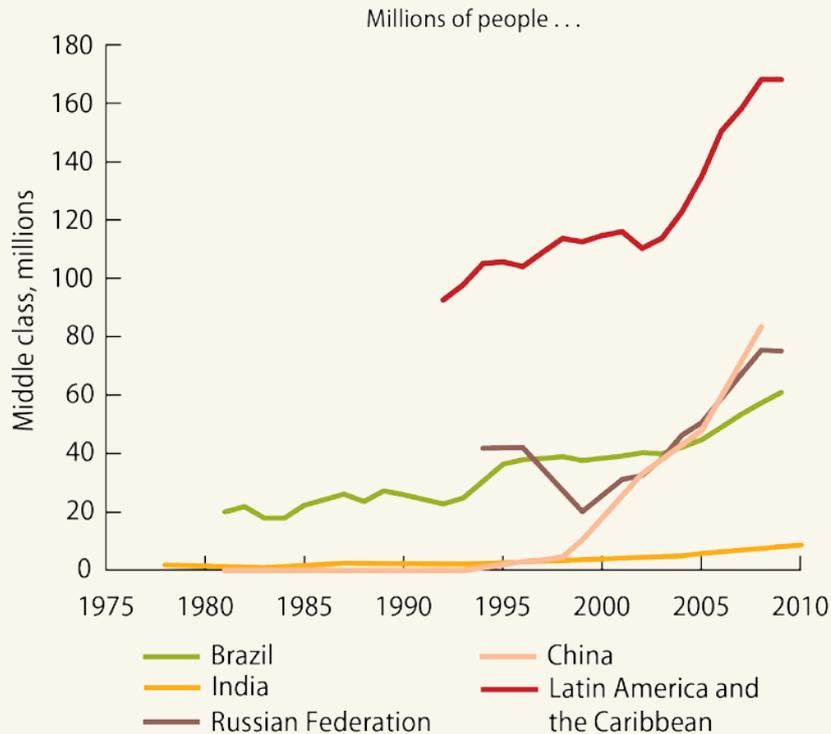
Decomposition of class growth attributable to income growth versus redistributive policies in Latin America, by country, circa 1995–2010



74 percent of the growth of the middle class between 1995 and 2010 can be attributed to growth in average income

# The middle class is rising all over the emerging world

## Middle-class growth in the BRICs, circa 1980–2010





## Typical characteristics of the middle class (cross-country averages)

- More educated
  - 10.6 years of education, vs. 7.6 years for the vulnerable
- More urban
  - 84 percent live in urban areas, vs. 72 percent for the vulnerable
- Smaller family size
  - 3.2 individuals, vs. 3.9 for the vulnerable
- Not necessarily bureaucrats
  - 20 percent are public employees, vs. 10 percent for the vulnerable



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# A growing middle class is associated with change...

The middle-class effect on indicators of social policy, economic structure, and governance

	Social policy		Economic structure		Governance	
	Public health expenditures (% GDP)	Public education expenditures (% GDP)	Mean applied tariff	Credit market liberalization	Polity score	Corruption
Middle class	2.054***	2.918**	-10,945***	1.357***	6.431***	-1.764***
(% of population with income above 10 USD)	[3.849]	[2.337]	[-3.072]	[2.799]	[4.068]	[-4.767]
Poverty	-0.019**	-0.042**	0.203***	0.047***	-0.042**	-0.011*
(US\$2.5 a day poverty headcount)	[-2.411]	[-2.472]	[2.874]	[3.383]	[-2.345]	[-1.825]
Inequality	-3.716**	3.028	20.736***	-0.209	9.262**	4.083***
(Gini Index)	[-2.456]	[1.360]	[3.373]	[-0.165]	[2.164]	[3.866]
Output per capita	0.121	-0.922	5.485**	1.292***	0.280	-0.470**
(Log of GDP per capita)	[0.416]	[-1.310]	[2.439]	[3.009]	[0.334]	[-2.218]
Observations						
(5 year averages)	269	192	265	294	318	285
Number of countries	107	97	103	100	106	92
Hansen Test – p value	0.174	0.640	0.934	0.469	0.701	0.451



## ...but is it because of special values?

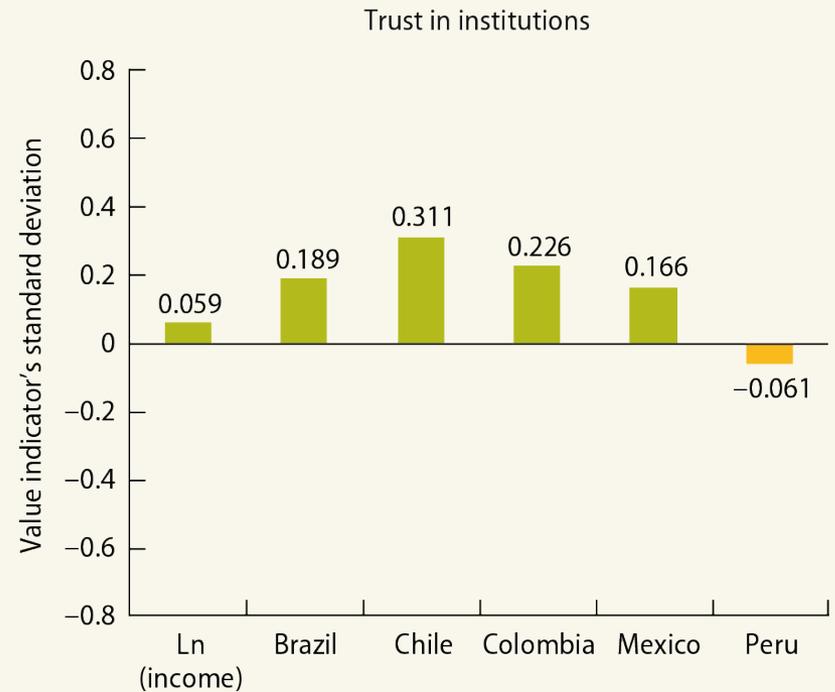
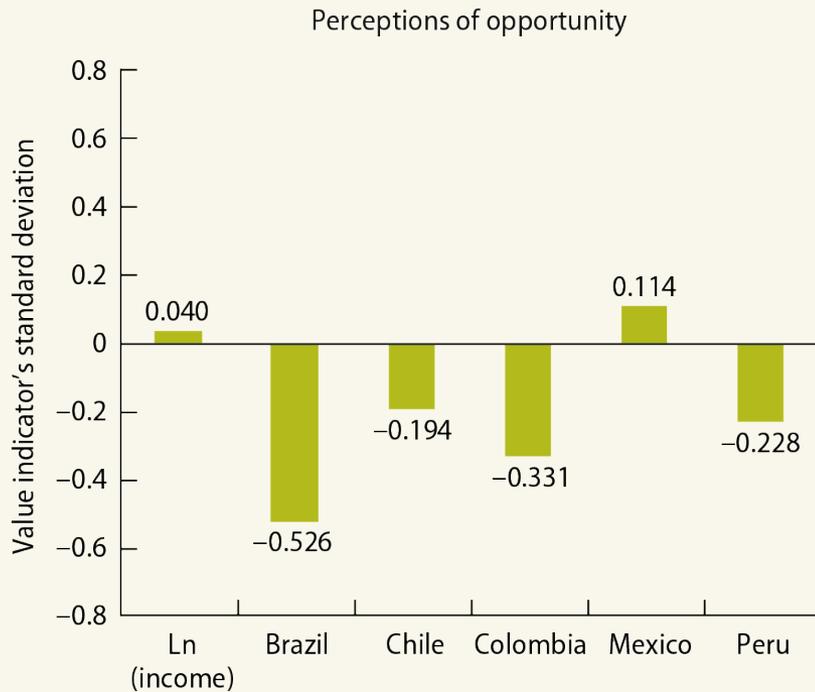
- Despite all the rumors about “middle class values” promoting social cohesion, hard evidence remains scant
  - The middle classes could be acting out of self interest
- While some reforms pushed by the middle classes may be beneficial for all, some other may not promote greater social inclusion
  - Example: funding primary vs. tertiary public education



We look at middle class values to delve better into the way they think

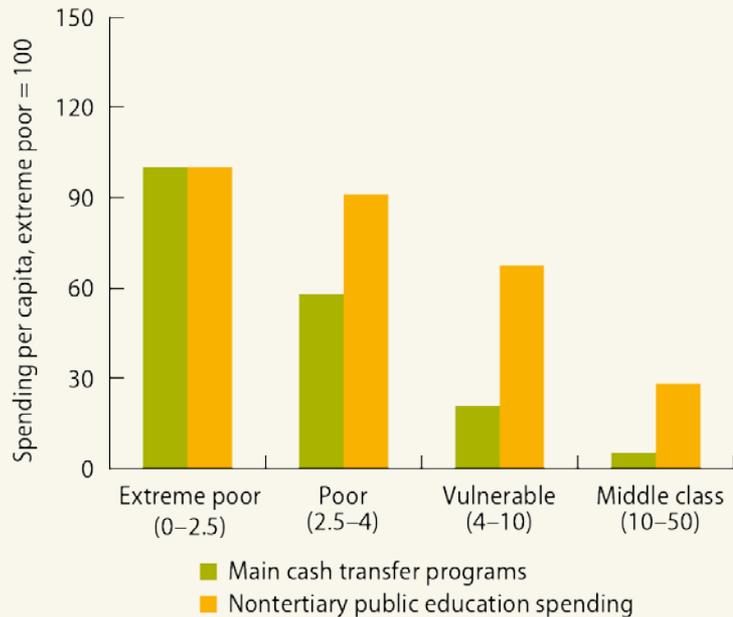
# Variations of values across countries are much larger than the ones dictated by income

Education, class, and values, selected Latin American countries, 2007

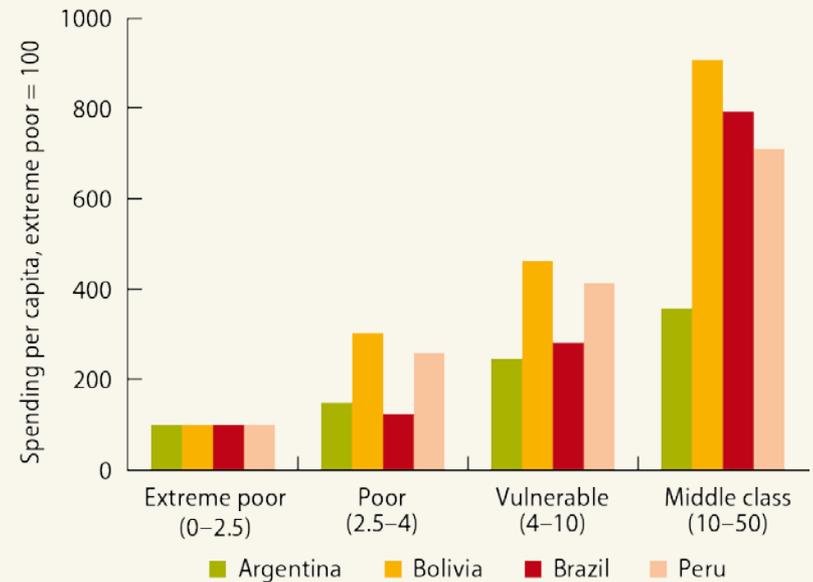


# The social contract in LAC is fragmented...

Class incidence of social policies,  
Peru, c. 2007–10

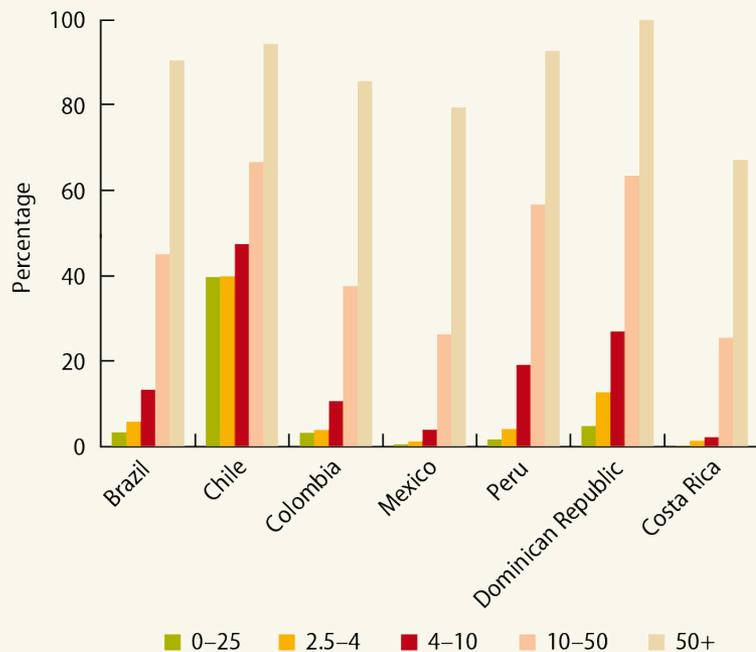


Incidence of tertiary public education  
spending, selected Latin American countries

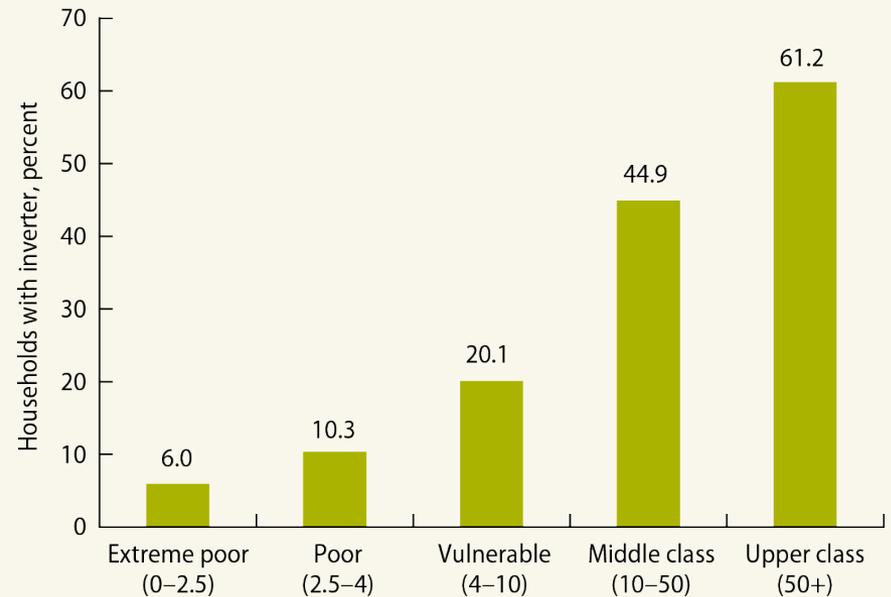


# ...with the middle classes opting out from basic services...

Percentage of students 6–12 years old enrolled in private schools, by income group, selected Latin American countries

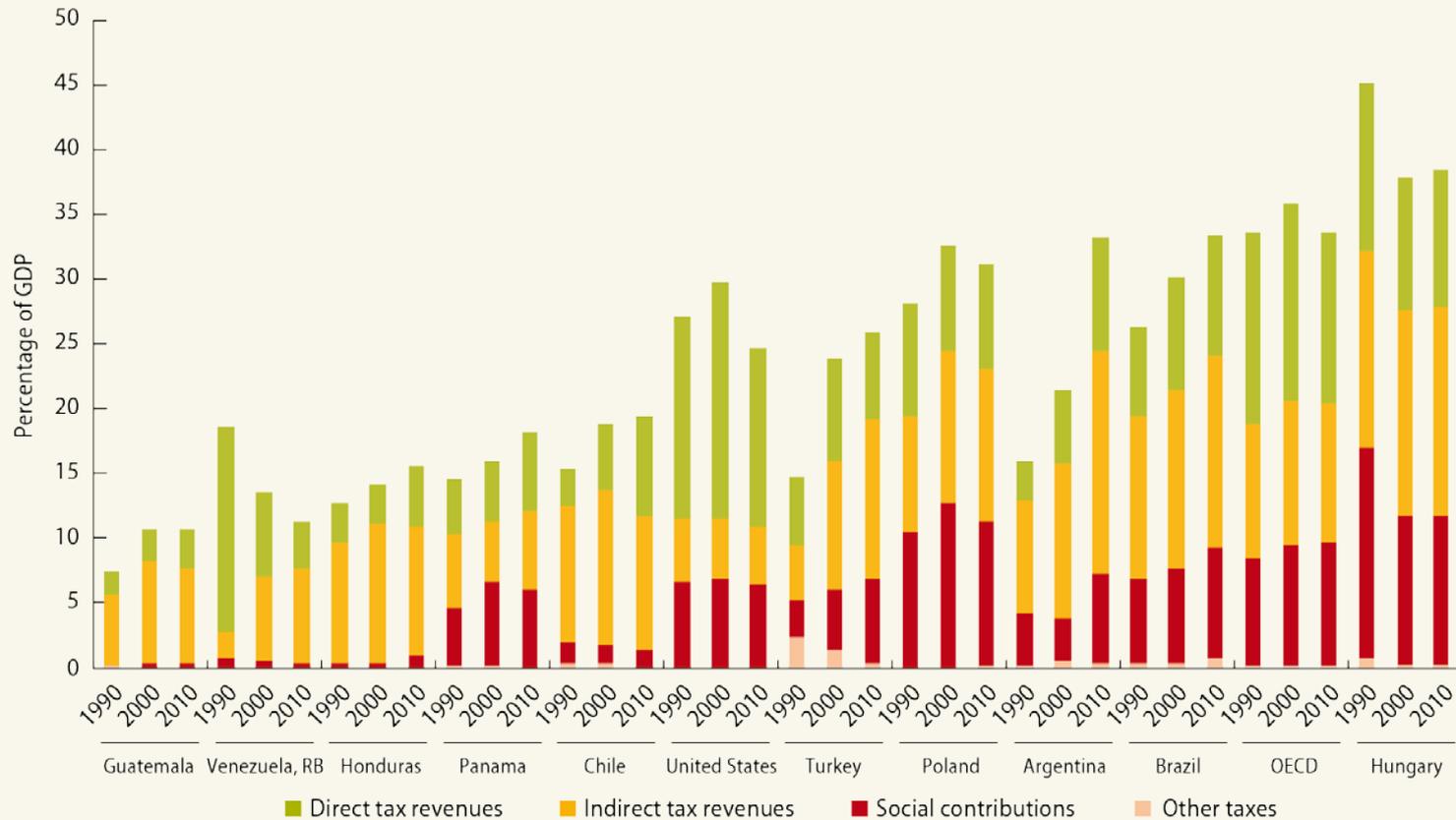


Ownership of electrical inverters in the Dominican Republic, 2010



# ...inducing a low-quality / low taxation vicious cycle

Tax revenues by type, selected Latin American and other countries, 1990–2010





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## Economic mobility and the middle class

- *Within generations*, economic growth with employment generation has lifted most incomes, particularly of the poor
- *Across generations*, who your parents are is still too important a determinant of your own achievements
  - The education system is not yet playing the role of equalizer of opportunities to the necessary extent
- The middle class is growing, but two-thirds of the Latin American population remains poor or vulnerable to poverty
- There seems to be a worrisome pattern of the region's middle classes opting-out of the social compact



## Three broad areas of policy engagement

- Policy Area 1: Incorporate equality of opportunities more explicitly into public policy
  - Sound economic management and social inclusion can go hand in hand
  - Improve access and quality of education, including tertiary
- Policy Area 2: Embark on a second generation of reforms to the social protection system
  - Calibrated also to the vulnerable and with a better integration of social assistance with social insurance
- Policy Area 3: Break the bad equilibrium of low taxation and low quality of public services
  - Use the commodity revenue bonanza to significantly raise the quality of public services

Thank You

