The Buoyant Billions: How "Middle Class" Are the New Middle Classes in Developing Countries? (And Why Does It Matter?)

Andy Sumner

Abstract

Middle-income countries (MICs) are now home to most of the world's extreme poor—the billion people living on less than $1.25 a day and a further billion people living on between $1.25 and $2. At the same time, many MICs are also home to a drastically expanding emerging middle or nonpolar group, called here the "buoyant billions." This group includes those (mostly in MICs) living on between $2 and $4 a day and another billion people (also mostly in MICs) between $4 and $10 a day. Although they are above the average poverty line for developing countries, many people in these new "middle classes" may be insecure and at risk of falling into poverty. This paper outlines indicative data on trends relating to poverty and the nonpoor by different expenditure groups, and critically reviews the recent literature that contentiously labels such groups as "middle class." The paper argues that such groups are neither extremely poor nor secure from poverty and that such groups are worthy of closer examination because their expansion may potentially have wider societal implications related, for example, to taxation, governance, and—ultimately—domestic politics.

JEL Codes: I32

Keywords: poverty, inequality, insecurity, middle classes.

Center for Global Development
www.cgdev.org

Working Paper 309
October 2012

The Buoyant Billions: How "Middle Class" Are the New Middle Classes? (And Why Does It Matter?)

Andy Sumner
King's International Development Institute
King's College London

CGD is grateful for contributions from the the William and Flora Hewlett Foundation in support of this work.

Andy Sumner . 2012. "The Buoyant Billions: How "Middle Class" Are the New Middle Classes? (And Why Does It Matter?)." CGD Working Paper 309. Washington, DC: Center for Global Development.
http://www.cgdev.org/content/publications/detail/1426628

Center for Global Development
1800 Massachusetts Ave., NW
Washington, DC 20036

202.416.4000
(f) 202.416.4050

www.cgdev.org

The Center for Global Development is an independent, nonprofit policy research organization dedicated to reducing global poverty and inequality and to making globalization work for the poor. Use and dissemination of this Working Paper is encouraged; however, reproduced copies may not be used for commercial purposes. Further usage is permitted under the terms of the Creative Commons License.

The views expressed in CGD Working Papers are those of the authors and should not be attributed to the board of directors or funders of the Center for Global Development.

Contents

Introduction

Middle-Income Countries (MICs) are now home to most of the world's extreme poor – up to a billion people who are extreme poor (meaning living under $1.25/day) and a further billion people living between $1.25/day and $2/day. At the same time, many MICs are also home to a drastically expanding group of people with expenditures of between $2 and $10 per capita/day. Globally, this "emerging middle" or "non-polar" or "in-between" group or "buoyant billion" actually includes more than a billion people (mostly in MICs) between $2-$4/day *and* another billion people (mostly in MICs) between $4-$10/day and although above the average poverty line for developing countries, in all likelihood, many people in these new "middle classes" may be insecure and at risk of falling into poverty.

This paper outlines indicative data on trends relating to poverty and the non-poor by different expenditure groups, and critically reviews the recent literature that contentiously labels such groups as "middle class". The paper argues that such groups are neither extreme poor, nor in all likelihood secure from poverty and such groups are worthy of closer examination because their expansion may potentially have wider societal implications for example related to taxation, governance and ultimately, domestic politics.

The paper is structured as follows: Section 2 outlines trends in the data for the "non-poor". Section 3 critically reviews the recent literature that contentiously labels such groups as "middle class". Section 4 concludes.[1]

Trends in Global Poverty and the "Non-poor"

Although the percentage of the world's population in poverty has fallen, the number of people in the world living on under $1.25/day has barely changed since 1990 if China is excluded (and in fact has risen slightly by the $2 poverty line). Most of these poor live in middle-income countries (MICs) which account for almost one billion extreme poor (Sumner, 2012; 2012a).[2]

Such patterns matter beyond the thresholds of low income countries and middle income countries (LICs/MICs) set by the World Bank, because they reflect a pattern of rising

[1] A version of this paper is published as 'Poverty, Vulnerability and Class: The Expanding Non-Polar Groups and Development', *Public Administration and Development*, 32.5: 444-454. Thank you for comments on earlier versions of this paper to two anonymous reviewers, and to Nancy Birdsall, Homi Kharas, Charles Kenny and Lant Pritchett. Thanks for research assistance to Nicki Goh, Pui Yan Wong and Henrique Conca Bussacos.

[2] The world's multi-dimensional poor are also largely focused in middle-income countries (Alkire *et al.*, 2011). And the world's ill health and disease and mortality burden is also middle-income country concentrated (Glassman *et al.*, 2011).

average incomes. Further, although the thresholds do not mean a sudden change in countries when a line is crossed in per capita income, substantially higher levels of average per capita income imply substantially more domestic resources available for poverty reduction and the international system treats countries differently at higher levels of average per capita income.

Indeed, as average incomes have risen, the number of "non-poor" people in the world (here meaning those living above $2/day) has risen significantly since 1990, both as a proportion of the population and in absolute numbers. There has been a particularly notable expansion between $2-$4/day and $4-$10/day. Across all developing countries the proportion of people in the $2-$10 group has risen from about a quarter to almost a half. When the data is analysed without China the rise is less pronounced but still significant. The rises are particularly noticeable in the new MIC group, but visible in the data across both LMIC and UMIC groups (See also discussion in Sumner, 2012a).

The actual numbers of people in the $2-$4 range have risen from 700m to 1.4bn (or which 1.3bn are in the MICs), and in the $4-$10 range from 400m to 1.1bn (of which almost all are in the MICs), across developing countries between 1990 and 2008. The rises are less pronounced without China but still entail a near doubling in the number of people in both the $2-$4/day and $4-$10/day group; so that there are now around 2 billion people under $2/day globally excluding China, 1bn in the $2-$4 range, and 720m in the $4-$10 range. The rise in numbers of people is, as noted above, particularly noticeable in the new MIC group but also crosses both LMIC and UMIC groups.

The "Middle Millions:" Disparate Individuals or Emergent "Middle Class?"

Definition questions

There is a long and rich history of class analysis in sociology and classical political economy, dating back to Aristotle, Mill, Ricardo Smith, Marx, Weber and others. It raises the contentious issue of whether the "middle" group, however defined, is a disparate group of individuals or a "class" in itself. For Aristotle and Marx, the middle class were property owners. In contrast, for John Stuart Mill, the middle classes were defined by level of income rather than its source. And Weber (1922) viewed stratification in terms of class, status and power.

Class is discussed in sociology in terms of types of assets and productive processes, labour markets, and occupational resources (see review in Torche & López-Calva, 2011). The middle classes are those which do not own the means of production, but control skills and knowledge or authority as a source of power. In short, the type as well as the amount of assets matter, as does some sense of security.

Estimates of population (% of population and millions) by region and expenditure groups, 1990 and 2008

	Less than $2		$2-$4		$4-$10	
	1990	2008	1990	2008	1990	2008
Percent of population						
LMICs (current group)	73.3	59.1	18.3	27.2	6.7	11.0
UMICs (current group)	58.4	20.3	18.5	26.4	16.0	35.6
China	84.6	29.8	13.4	32.2	1.9	31.0
India	82.6	72.4	14.5	22.2	2.6	4.8
New MICs	78.5	64.9	15.3	25.0	4.8	8.1
All developing countries	67.1	43.9	17.2	25.9	10.9	21.1
All developing countries minus China	60.2	48.6	18.7	23.9	14.4	17.9
Millions						
LMICs (current group)	1,256.7	1,394.5	314.2	641.0	114.3	260.3
UMICs (current group)	1,089.8	476.6	345.5	621.0	298.2	838.3
China	960.6	394.3	152.2	426.8	21.2	410.0
India	701.7	825.1	123.3	252.8	22.0	54.5
New MICs	1,132.7	1,266.4	220.2	487.7	68.8	158.8
All developing countries	2,696.3	2,357.4	690.7	1,391.4	436.8	1,132.0
All developing countries minus China	1,735.8	1,963.0	538.5	964.6	415.6	722.0

Source: Sumner (2012a) based on data processed from PovCal (2012). Note: Data is population weighted. New MICs = graduation since 2000.

Contemporary sociological analysis of class places a particular emphasis on economic security (see, for discussion, Erikson & Goldthorpe, 2008; Goldthorpe & McKnight, 2006). For example, Standing (2011, p. 7-8) drawing upon Weber, sums up contemporary sociological thinking on class as a combination of the social relations of production and position in the labour process (meaning status). Standing notes that, in contemporary labour markets, key distinctions are made between employers, employees and self-employed; but also between wage-workers (paid by piece-rate or time-rate) and salaried employees. He summarises, with an implicit emphasis on industrialised countries, thus:

> Broadly speaking… we can identify seven groups. At the top is an 'elite'… Below the elite comes the 'salariat' [with] stable, full-time employment… concentrated in large corporations, government agencies and public administration… Alongside the salariat… is a (so far) smaller group of 'proficians' [referring to] the traditional ideas of 'professional' and 'technician' [or] those with bundles of skills that they can market earning high incomes on contract, as consultants or independent own-account workers… Below the proficians, in terms of income, is a shrinking 'core' of manual employees, the essence of the old 'working class'… Underneath these four groups, there is a growing 'precariat' [meaning those in insecure employment], flanked by an army of unemployed and a detached group of socially ill misfits living off the dregs of society.

Recently a body of empirical studies (see below) related to developing countries has emerged in response to the growing data on the "in-between" groups discussed in above. This literature has referred to the non-poor/non-rich, or the "non-polar" groups or classes, as "the middle classes"; more often than not defined by daily expenditure per capita.[i] For example, Cárdenas *et al.,* (2011, p. 17) in their study of Latin America's "global middle class" sums up this group of literature thus:

> The middle class has been calling the attention of researchers because of its role in explaining comparative development. A variety of channels have been explored, including those linking the middle class to long run economic growth, democratic attitudes, and entrepreneurship.

As is immediately evident, one could ask whether we should assess the "middle class" - a social identity - in terms of daily expenditures, or by some other component of the expenditure distribution such as quintiles or deciles. Rather than a "class" with shared interests or characteristics, such groups could simply include disparate individuals. Many of the recent studies (see table below) are based on absolute definitions of expenditure per capita/day (PPP), ranging from $2/day to $13/day (Ravallion, 2009); or stipulating "two ends" of the middle class such as $2–4/day and $6–10/day (Banerjee & Duflo, 2008), or $2-$10/day and $20/day (ADB, 2010; AfDB, 2011); or defining a "global middle class" as the group living on between $10 and $100/day (Kharas 2010). Others have taken the literal "middle" of the income/expenditure distribution in terms of the middle three expenditure quintiles (Easterly, 2001), or the non-literal middle as those between the "poor" (taken as the bottom 40%) and the "rich" (taken as the top 10%) (Palma, 2011).

Bhalla (2007, pp. 94, 97) notes in his pioneering study of the "middle classes" in India and China that,

> By its very name, middle class is often treated as the middle of the population… This middle of the distribution, like the poor, is always with us and always approximately the same percentage of the population. However, this middle is unlikely to be the middle class as either historically defined or understood. According to the 'middle of the distribution' formula, the middle class is always 40 to 50 percent of the population. But historically, from Aristotle to Barrington Moore, the middle class is often a very *small* fraction of the population; for long periods, often less than a tenth if not less than a twentieth of total population… By definition, the middle class are not the poor, and not the rich.

Other definitions of "middle class" have used combinations of the above (Birdsall, 2010). One can largely arrange such definitions using a 2 x 2 matrix showing approach (in terms of absolute vs. relative definitions of middle class) and scope (in terms of global middle class vs. middle class in developing country terms).

Definitions of the "middle classes" in recent cross-country, comparative empirical studies

	Absolute definitions	Relative definitions
Developing country middle class standard	\$2–\$20/day (AfDB 2011; ADB 2010; Chun 2010) \$2–4 and \$6–10/day (Banerjee & Duflo, 2008) \$2–\$13/day (Ravallion, 2009; Wheary, 2009)	Decile 5-9 (Palma, 2011) Middle 3 or 4 quintiles (e.g. earlier studies of Barro, 1999; Easterly, 2001) \$10 – the 95th percentile (Birdsall, 2010) 75%–125% median income (Brandolini, 2010 and earlier study of Birdsall *et al.,* 2000)
Global middle class standard	\$10–100; \$10+/day (Kharas, 2010; Kohut, 2009) \$16–\$82/day; \$36–\$310/day (Court & Narasimhan, 2010; Goldman Sachs, 2008; Court and Narasimhan, 2010)	n.a.

Sources: As detailed. Note: Additionally, one earlier study, Milanovic and Yitzhaki (2002) defined the middle class as those living between the mean incomes of Brazil and Italy.

The *absolute* definition of "middle class" in these approaches thus seeks to provide upper and lower limits for the daily per capita income or expenditure (measured on PPP basis). The selection of such bounds is highly arbitrary – as is any threshold, including of course the MIC thresholds themselves. However, some authors provide a conceptual basis for their "middle class" thresholds.

Ravallion (2009) takes the average (median) poverty line for developing countries and the USA poverty line (respectively, \$2 and \$13/day). For Ravallion (2009), this represents a "developing world middle class" that includes those individuals who are relatively rich by their own countries' standards despite earning, in many cases, an income below the US poverty line. At a global level, as Kharas (2010, p. 11) points out, in order to consider the size of middle class consumption it is logical that all individuals should be assessed against a "global standard", with the purchasing power of the middle class at a comparable level. In contrast, a relative definition of "middle class" defines the middle class as the "middle" 60 per cent of the population by removing the poorest and richest quintiles; or defines the "middle class" as those (5) deciles above the poor (defined as deciles 1-4) and below the rich (decile 10) (e.g. Palma, 2011).

Definitions of the "middle class" tend to be determined by the nature of the analysis and the geographic context and timescale over which trends in the size and shape of the population are being examined or compared by the author. One major difference between an absolute measure and that of relative measures is thus that the absolute definition allows for a change in the share of the "middle class" in the overall population over a period of time, while relative definitions based on share of GNI do not.[ii]

There are a set of problems with labeling the $2-$10/day or $2-$20/day groups, or whatever other groups based on daily expenditure or share of GNI, as "middle class". Not only is class historically understood as a social identity based on common socio-economic characteristics or political interests, but it is difficult to refer to someone as "middle class" if they are as highly vulnerable to poverty as are those living on just above $2 a day may be. In short, the self-labeled "middle class" literature is not really about "class", as a social construct based around collective identity or collective interests, however conceptualised.

In the recent "middle class" studies outlined above, the "middle class" is a (potentially disparate) group of individuals living on a similar expenditure/day. This is, more precisely, a "middle income group" of some kind, which depending on the limits set is more or less secure from falling into poverty (see below).

In a similar vein, relative definitions may simply represent a slice of the expenditure distribution – the middle three quintiles for example – and might well incorporate a disparate group of individuals who just happen to be in the same quintile or decile groupings. The middle-class thus exist by definition, as a self evident group of 50% or 60% of the population**.** Whether they are disparate individuals or have shared interests is not clear.

If one takes the perspective that the "middle class" are the "not extremely poor and not extremely rich" income group, by whatever daily PPP consumption standards, one needs to say something at the lower end about vulnerability to poverty; or include some kind of "buffer zone" above which individuals can, for example, afford insurance against shocks and stresses (such as health problems) which have economic implications. There is little difference between those on either side of an arbitrary line, but perhaps there is a "fuzzy zone" – a range in which vulnerability to poverty falls to very low risk (see below). One might argue that the security this brings (albeit, in a "fuzzy zone" rather than a clear threshold) is an important aspect of being "middle class".

One could take the position that being "middle class" involves little or no risk of falling into poverty. An interesting study in Chile, Mexico and Brazil calculated the risk of falling below the poverty line of $4-$5/day (the higher poverty line of Latin America) over a 4-6 year period. It suggested that the risk of falling into poverty was as low as approximately 10% at an initial income of $10/day per capita in all three countries, but fell to zero in Chile and Mexico at an initial income close to $20/day. The authors refer to this as a "vulnerability approach to identifying the middle classes" (López-Calva & Ortiz-Juarez, 2011).

Similarly, Birdsall (2010, p. 7) highlights the importance of the security resulting from having an income, or accumulated savings, allowing an individual to withstand a financial shock without having to sell assets. Ravallion (2009) also eludes to the fragility of the "middle class" in his definition of $2-$13/day, as a significant percentage of people at the lower end are very vulnerable to slipping back below the poverty line. In ADB (2010) there is an examination of "downward mobility" within middle class families which risk falling into poverty in times of crisis.[iii]

Other characteristics

Many studies have typically identified characteristics of the "middle class" which are simply correlates of higher income. For example, Wheary (2009, p. 76) describes the middle class in relation to the poor by associating it with an ability to choose to spend time and money on "something other than survival". Although it is self evident, it is repeated in much of the literature that those with higher incomes consume differently. Indeed, the self-labelled "middle class" literature has sought to outline how the "middle classes" are different to "the poor" in terms of such characteristics. However, it is likely that all of these characteristics are simply directly related to higher per capita incomes. For example, Banerjee and Duflo (2008, pp. 3-15) point out that, in several countries, the "middle classes" consume more expensive foods, are more likely to own a television, are more likely to live in bigger houses and to have tap water, latrines and electricity in homes. They are also more likely to prioritise investment in human capital; to send their children to school, to spend a larger proportion of incomes on education, to spend longer in schooling, and to seek higher quality healthcare for their families when sick.[3] A range of factors less directly correlated with higher per capita incomes is also evident: for example, being less likely to own land, or to be self-employed either in agriculture or non-agricultural sectors, or to migrate further and for longer.[4]

Kharas (2010) focuses on the role of a global "middle class" as a growing consumer base. The higher incomes of the middle classes enable those in that group to spend more money on higher quality food, entertainment, higher standards of living, and better education for their children. Senauer and Goetz (2003, p. 3) support the idea that the emerging middle class in many developing countries creates a large global growth opportunity for high-value food products. The middle class in Peru were found to eat more expensive, high-value foods, such as fresh vegetables, fresh fruit and red meat, as well as higher volumes of chocolate, pre-prepared foods and alcohol.

The question of values also appears regularly in literature about the "middle class" (see for critique, Kenny, 2011). It is argued that, as incomes increase, perceptions shift from a preoccupation with freedom from hunger and poverty towards a desire for civil and political

---

[3] Data in Banerjee and Duflo (2008) covers India (urban), India (rural), Indonesia, Côte D'Ivoire, Mexico, Nicaragua, Pakistan, Panama, Papua New Guinea, Peru, South Africa, Tanzania, Timor-Leste and Guatemala.

[4] However, Banerjee and Duflo (2008) did find some significant cross-country differences which might not be expected. In some countries, the rural "middle class" identified is self-employed outside agriculture (Indonesia, India (Udaipur), Nicaragua, Panama and South Africa). However, in some countries the rural middle classes are no more likely than the poor to own a business (Guatemala and Mexico, for example). And in contrast to the rather idealised image of the "middle class" as "risk-taking entrepreneurs", Banerjee and Duflo highlight empirical evidence showing that many businesses operate at low profits or fail to experience significant growth.

Selected characteristics attributed to "middle class" by various definitions taken

Which "middle class"?	**$2–$4 and $6–$10**	**$2-$13/day**	**$2-$20**	**$10-$100/day**	**$10 – the 95th percentile**	**$10+/day**
Characteristics attributed	Likely to be in salaried employment; have smaller families; likely to operate businesses at low or negligible profits.	High expectations for civil rights and fair judicial systems; recognition of government's duties to invest wisely.	Households earning an amount that is enough not just to survive but to invest in productive activities that contribute to economy-wide welfare.	High income elasticity for durable goods and services.	Smaller household sizes; more likely to be salaried workers.	Greater concern for open and honest elections and fair judicial system; strong desire for civil rights such as free speech.
Sources	Banerjee and Duflo (2008)	Ravallion (2009); Wheary (2009)	ADB (2010); AfDB (2010)	Kharas (2010)	Birdsall (2010)	Kohut (2009)

Sources: As indicated.

rights and freedoms. In short, a politically engaged (and taxpaying) population is more likely to have exacting demands on government.

Recent empirical evidence for this is provided by Devarajan *et al.,* (2011, p. 15), suggesting that there is a positive relationship, significant at 1%, between the level of tax revenue and the extent of voice and accountability in a country (using Kaufmann governance indicators for voice and accountability); but that there is a threshold at 49% of GDP after which, with excessively high levels of taxation, the relationship is inverted. However, as the authors note (p. 15):

> Since the tax-to-GDP ratio in most developing countries is below this level, one can assume that most [developing countries] are situated on the rising part of the relationship where increases in the level of taxation are associated with more accountability.

Interestingly, Devarajan *et al.,* (2011, p. 13) also note that governance and secondary education have a strong association even after controlling for various variables.

Palma (2011) has noted that the share of GNI to those who are neither extremely poor (which he defines as the poorest four expenditure deciles), nor rich (defined as the richest expenditure decile), is surprisingly similar, at about 50% of GNI, regardless of where (and when) one looks at the distribution data. In short, there is a remarkable capture of half of GNI by those deciles between the poor and the rich. This suggests that, as Palma (2011) argues, domestic politics is about a contest for the remaining 50% of GNI between the very rich and the very poor and possibly, who the "middle classes" form allegiance with.[5]

Further, Loayza et al., (2012) have linked the size of the middle class (which they define as the proportion of people earning more than US$10 per capita) with more progressive social policy on health and education (higher spending) and improvements in the quality of governance (democratic participation and official corruption) and these impacts are more robust that higher GDP per capita.

In short, not only the capacity to redistribute but the preferences of the non-poor for redistributive policies, and their relationship with the poor, may become increasingly important for poverty reduction in middle-income countries. However, if a large part of the "middle millions" are still living on less than $10/day, there will be limitations to new taxation for some time to come. And further, if there is little support among the more secure middle classes for paying more taxes, such policies will be constrained by political economy.[6]

---

[5] And Ravallion (2010) has argued that most countries with an average per capita PPP income of over $4,000 would require very small additional taxation to end poverty. See also discussion in Sumner (2012b).

[6] OECD (2011) discusses in some considerable detail middle class preferences for the amount of income redistribution via fiscal policy. In particular it addresses what role the middle classes in Latin America play in shaping fiscal policy and redistribution, and the impact of fiscal policies on the middle classes.

A cross-country empirical study of perceptions aiming to test the thesis is the 2009 Pew Global Attitudes project, which demonstrates that the "middle class" place more importance on the creation of democratic institutions – notably free speech and fair elections – while low-income groups place greater emphasis on being "free from poverty" (see table). Unfortunately, the demarcation between "poor" and "middle class" is an arbitrary daily expenditure line, drawn at just under $12/day (2007, PPP) and with no upper limit.

The World Values Survey further tests the idea of "middle class" values, offering considerable data in the attempt to ascertain if there are clear distinctions between the values of the "middle class" and other societal groups (see Cárdenas *et al.,* 2011, pp. 13-17, for discussion on the World Values Survey and "middle class" values in Peru). However, research such as the World Bank's *Moving out of Poverty* (Narayan & Petesch, 2007) suggests that both "the poor" and non-poor have "middle class" values towards work, savings and investing in children in the 15 countries surveyed.

Attitudes of those above and below $12/day in selected countries

	% placing importance on free speech		**% placing importance on fair elections**		**% placing importance on being free from poverty**	
	>$12/day	**<$12/day**	**>$12/day**	**<$12/day**	**>$12/day**	**<$12/day**
Chile	81	68	80	66	27	41
Russia	42	31	51	37	38	44
Ukraine	35	35	65	53	54	54
Venezuela	61	53	74	62	19	17
Poland	49	43	54	44	40	44
S. Africa	53	44	59	49	20	38
Malaysia	34	33	61	52	18	25
Mexico	53	50	64	55	22	21
Brazil	62	62	69	62	37	42
Argentina	63	68	72	69	50	51
Egypt	80	78	51	48	27	36
India	63	52	53	51	21	23
Bulgaria	52	44	57	57	54	65

Source: Kohut (2009, pp. 9-15).

Poverty and security

Of course, this is all highly arbitrary – is there really anything fundamentally different between individuals above and below daily expenditures of a certain level (or point on the distribution)? Perhaps not; but as López-Calva and Ortiz-Juarez (2011) demonstrate (see earlier), there is a point where vulnerability to poverty falls to very low levels. Thus one might argue that the "middle class" are those with a low probability of experiencing poverty. Certainly, people move in and out of poverty, and do not escape poverty at once but in a series of steps.[iv] This implies that many of those labeled "poor" are moving in and out of poverty, depending on vulnerabilities, shocks, stresses, and capacities to cope; and that those above $2/day, rather than being "middle class", may actually sometimes be "poor". In short, the conflation of a static cross sectional measurement of "income" or "consumption expenditure" and "class" is difficult to sustain because of the volatility in all panel studies of income/expenditure.

In their wide-ranging review of datasets, Dercon and Shapiro (2007) identify three key factors accounting for an individual's ability to escape long-run poverty: changes in economic and social assets, social exclusion and discrimination, and location in remote or otherwise disadvantaged areas. Further, they find that an individual's descent into poverty can also be explained by temporary shocks, such as illness and health-related expenses, social and customary expenses on marriage and funerals, high-interest private loans, crop disease, and drought and irrigation failure. Dealing with such temporary shocks often requires strategies such as the selling of assets, which may result in greater vulnerability in the longer term or what Chambers (1996) calls "poverty ratchets". Such factors are worth considering in discussion, as those at just above $2/day and described as "middle class" in some studies may simply be the transient "poor" who are one illness away from poverty (and the "middle class" by some definitions are actually are "the poor" by OECD standards, as noted by Pritchett, 2006).

A further approach is that of Pritchett (2003; 2006) who makes a convincing case for a spectrum of poverty lines, with poverty persisting to much higher levels of per capita expenditures.[v] This implies that people do not simply move out of poverty, but move out of poverty of different levels of severity.

In sum, it is misleading to label the expanding group of those "in-between" the extreme poor and the rich as "middle class". First, "class" is a social construct, invoking a group with shared characteristics or interests which are non-attributable to daily expenditures or position on the income distribution. Second, and more importantly, such a label implies being "non-poor", and thus having some level of security from falling into poverty. It is probably more accurate to say that there is an expanding number of people who are neither extremely poor nor, in all likelihood, secure from the risk of experiencing future poverty. Certainly, the theme of security from falling into poverty ought to be explored further, as this might provide a commonality amongst the merging "in-between" group identified in data.

Concluding Discussion

Many countries have become richer in average per capita terms over the past decade, achieving MIC status by income per capita. At the same time, many MICs are potentially now in a position where the balance of available state funding between domestic taxation on individuals and other sources, notably aid, could shift drastically in favor of domestic tax. However, there are limits to this if many of the 'Buoyant Billion(s)' are barely above the $2 poverty line or at risk of falling back into poverty.

Not surprisingly in light of the above, a burgeoning area of interest has been the expanding "in between" group. The recent "middle class" literature introduced above raises a set of interrelated questions for the study of the expanding non-extreme poor/non-rich groups; as to whether these groups constitute a "middle class", the distinctiveness of the middle income group (relative to other societal groups), and whether the group is one group composed of individuals with similar interests or characteristics, or several groups, or just a set of disparate individuals.

Three reasons why a larger "in-between" group may present a driving force for internally driven change are as follows: First, as the numbers of non-extreme poor people expand, so do the proportion of their expenditures on certain types of taxes most likely sales taxes as consumption patterns changeg; likely changing their perceptions of their relationship with the state. Second, many MICs are now in a position where the balance of funding of the state has already shifted drastically in favor of non-aid and domestic sources. Third, a larger "in-between" group indicates a larger group of people who likely suffer frustrated aspirations in terms of attaining the consumption and security of the upper middle classes and elite; most notably in their desire for social insurance (such as health insurance), and freedom from the risk of poverty or shocks sending them back into poverty.

Areas for extension in conceptual and empirical research might include the following: First, the conceptual basis of what it means to be a member of the "in-between" group(s) warrants some greater probing, perhaps around the themes of security (i.e. what is the buffer between poor and "middle class" and what is meant by "secure", perhaps in terms of asset ownership of durable goods, health insurance coverage, or employment in formal or informal sectors); connections (what connections are needed to "get on", such as networks from university education, insider connections to navigate the state bureaucracy when needed) and aspirations (what is meant by aspiration; for example do the middle classes want "better" things such as privately educated children, positional goods etc?).

Second, given the potential future role of the non-poor in the financing of poverty reduction, useful avenues to explore might include the scope for domestic taxation, how the preferences of the non-poor for redistribution are formed, and why political coalitions evolve between the poor and the "in-between" groups. Further areas for exploration include the impact on domestic governance of larger numbers of non-extremely poor people, and what happens if and/or when the "in-between" group's political and economic interests do not align with the interests of the secure (upper) middle classes and elites.

Finally, the policy implications and potential trade-offs for donors need probing further, in terms of supporting the expansion of the "middle millions". One could say that there are a range of free-rider policies which are largely institutional – i.e. the poor and non-poor benefit from progress on the rule of law, better governance and anti-corruption – but also a set of trade-off policies that are more economic, such as the impact of aid on the tradable sector and on small businesses in particular.

References

Ablett, J, A., Baijal, E., Beinhocker, A., Bose, D., Farrell, U., Gersch, E., Greenberg, S., & Gupta, S. (2007). *The Bird of Gold: the Rise of India's Consumer Market.* McKinsey Global Institute.

Acemoglu, D., & Zilibotti, F. (1997). Was Prometheus Unbound by Chance? Risk, Diversification, and Growth. *Journal of Political Economy 105*(4), 709–51.

ADB (2010). *The Rise of Asia's Middle Class.* Manila: Asian Development Bank.

AfDB (2011). *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*. Tunis-Belvedère: African Development Bank.

Alesina, A., & Angeletos, G. M. (2005). Fairness and Redistribution. *American Economic Review 95*(4), 960–80.

Alesina, A., & Giuliano, P. (2009). Preferences for Redistribution. *NBER Working Paper 14825*. New York: National Bureau of Economic Research.

Alesina, A., & Perotti, R. (1996). Income Distribution, Political Instability and Investment. *European Economic Review 40*(6), 1203–28.

Alkire, S., Roche, J., Santos, E., & Seth, S. (2011). *Multidimensional Poverty Index* 2011. Oxford: OPHI.

Banerjee, E., & Duflo, A. V. (2008). *What is Middle Class about the Middle Classes around the World?* Boston: MIT.

Barro, J. R. (1999). Determinants of Democracy. *Journal of Political Economy 107*(6), 158–183.

Bhalla, S. (2007) Second Among Equals: The Middle Class Kingdoms of India and China. Peterson Institute for International Economics: Washington DC.

Birdsall, N. (2010). The (Indispensable) Middle Class in Developing Countries; or the Rich and the Rest, Not the Poor and the Rest. *Centre for Global Development Working Paper 207*. Washington, DC: CGD.

Birdsall, N. (2007a). Do No Harm: Aid, Weak Institutions and the Missing Middle in Africa. *Development Policy Review 25*(5), 575–98.

Birdsall, N. (2007b). The Macroeconomic Foundations of Inclusive Middle-class Growth. *2020 Focus Brief.* Washington DC: International Food Policy Research Institute.

Birdsall, N., Lustig, N., & McLeod, D. (2011). Declining Inequality in Latin America: Some Economics, Some Politics. *Center for Global Development Working Paper 251*. Washington DC: CGD.

Birdsall N., Graham, C., & Pettinato, S. (2000). Stuck in the Tunnel: Is Globalization muddling the middle class? *Brookings Institution Working paper 14*. Washington DC: Brookings Institution.

Brandolini, A. (2010). On the Identification of the "middle class". *Inequality and the Status of the Middle Class: Lessons from the Luxembourg Income Study*. Luxembourg 28-30 June 2010.

Brautigam, D., Fjeldstad, O-H., & Moore, M. (2008). *Taxation and State Building in Developing Countries.* Cambridge: Cambridge University Press.

Cardenas, M., Kharas, H., & Heneo, C. (2011). *Latin America's Global Middle Class.* Brookings Institution Paper. Washington DC: Brookings Institution.

Chan, W-C. & Tse, A. (2007). *The Consumer Trap: Retailers need to Adapt to Entice Fickle Chinese Shoppers into their Stores*. McKinsey and Company.

Chandy, L., & Gertz, G. (2011). Poverty in numbers: the changing state of global poverty from 2005 to 2015. *Policy brief 2011-01*. Washington, DC: Global Economy and Development at Brookings, The Brookings Institution.

Chen, J., & Lu, C. (2010). Democratization and the Middle Class in China: The Middle Class's Attitudes toward Democracy. *Political Research Quarterly*. August 4, 2010.

Chun, N. (2010). Middle Class Size in the Past, Present and Future: A Description of Trends in Asia. *ADB Economics Working Paper 217*, Manila: Asian Development Bank.

Cornia, G. A. (2011). Economic Integration, Inequality and Growth: Latin America vs. the European Economies in Transition. *DESA Working Paper 101*. New York: UNDESA.

Cornia, G.A. (2010). Income Distribution under Latin America's New Left Regimes. *Journal of Human Development and Capabilities 11*(1), 85–114.

Court, D., & Narasimhan, L. (2010). Capturing the World's Emerging Middle Class. *McKinsey Quarterly July 2010*.

Daude, C., & Melguizo, A. (2010). Taxation and More Representation? On Fiscal Policy, Social Mobility and Democracy in Latin America. *Working Paper 294*. Paris: OECD Development Center.

Deutsche Bank (2009). *Emerging Asia's Middle Class*. Deutsche Bank Research Current Issues series. Frankfurt: Deutsche Bank.

Dercon, S., & Shapiro, J. (2007). Moving on, Staying behind, Getting lost: Lessons on poverty mobility from longitudinal data. *ERSC Global Poverty Research Group Working Paper Series, 75*. Oxford/Manchester: GPRG.

Devarajan, S.; Ehrhart, H.; Tuan Minh Le and Raballand, G. (2011) Direct Redistribution, Taxation, and Accountability in Oil-Rich Economies: A Proposal, CGD Working Paper, Washington DC: CGD

Doepke, M., & Zilibotti, F. (2007). Occupational Choice and the Spirit of Capitalism. *CEPR Discussion Paper DP6405*. London: CEPR.

Easterly, W. (2001). The Middle Class Consensus and Economic Development. *Journal of Economic Growth 6*, 317–55.

Erikson, R., & Goldthorpe, J. H. (1992). *The Constant Flux: A Study of Class Mobility in Industrial Societies*. Clarendon Press: Oxford.

Farrell, D., & Beinhocker, E. (2007). *Next Big Spenders: India's Middle Class*. Business Week, McKinsey Global Institute.

Gaviria, A. (2007). Social Mobility and Preferences for Redistribution in Latin America. *Economia 8*(1), 55–88.

Glassman, A., Duran, D., & Sumner, A. (2011). Global Health and the New Bottom Billion: What Do Shifts in Global Poverty and the Global Disease Burden Mean for GAVI and the Global Fund? *CGD Working Paper*. Washington, DC: Center for Global Development.

Goldman Sachs (2008). The Expanding Middle: The Exploding World Middle Class and Falling Global Inequality. *Global Economics Paper 170*. New York: The Goldman Sachs Group.

Goldthorpe, J. H., & McKnight, A. (2006). The Economic Basis of Social Class. In S. L. Morgan, D. B. Grusky, & G. S. Fields (Eds.). *Mobility and Inequality: Frontiers of Research from Sociology and Economics*. Stanford, CA: Stanford University Press, 109-136.

Harriss, J. (2009). Drivers of Development over the next 30 Years: Some Speculations. *Journal of International Development 21*(6), 772–75.

Hulme, D., Moore, K., Shepherd, A. (2001) Chronic poverty: Meanings and analytical frameworks, Chronic Poverty Research Centre Working Paper 2. Manchester/London: CPRC.

IMF (2011). *Revenue Mobilization in Developing Countries.* Washington DC: IMF

Kanbur, R., & Sumner, A. (2011). Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty. *Charles H. Dyson School of Applied Economics and Management Working Paper.* Ithaca, NY: Cornell University.

Kenny, C. (2012). Where is the Virtue in the Middle Class? *Center for Global Development Essay*. Washington DC: CGD.

Khan, M. (2004). State Failure in Developing Countries and Institutional Reform Strategies. In B. Tungodden, N. Stern, & I. Kolstad (Eds.) *Toward Pro-Poor Policies.* Oxford: Oxford University Press, 165–98.

Kharas, H. (2010). The Emerging Middle Class in Developing Countries. *OECD Development Center Working Paper 285*. Washington DC: Brookings Institution.

Koch, S. (2011). *Poverty reduction in a changing development landscape.* Paper presented at DSA-EADI Conference, York, UK.

Kohut, A (2009). The Global Middle Class: Views on Democracy, Religion, Values and Life Satisfaction in Emerging Nations. *Global Pew Attitudes Survey*. Washington DC: Pew Research Center.

Loayza N., Rigolini, J. and Llorente, G., 2012 Do Middle Classes Bring Institutional Reforms? World Bank Working Paper 6015. Washington, DC: World Bank

López-Calva, L. F. and Ortiz-Juarez, E. (2011). *A Vulnerability Approach to the Definition of the Middle Class.* Mimeograph. Washington DC & New York: The World Bank & UNDP.

Luckham, R., Gyimah-Boadi, E., Ahadzie, W., & Boateng, N. (2005). The Middle Classes and their Role in National Development. *CDD/ODI Policy Brief 3*. Accra: CDD-Ghana.

Medeiros, M. (2006). The Rich and the Poor: The Construction of an Affluence Line from the Poverty Line. *Social Indicators Research 78,* 1-18.

Meltzer, A. G. & Richards, S. F. (1981). A Rational Theory of the Size of Government. *Journal of Political Economy 89*(5), 914–27.

Milanovic, B. (2011). Global Inequality: From Class to Location, from Proletarians to Migrants. *World Bank Policy Research Working Paper 5820*. Washington DC: World Bank.

Milanovic, B., & Yitzhaki, S. (2002). Decomposing World Income Distribution: Does the World have a Middle Class? *World Bank Policy Research Working Paper 2562,* Washington DC: World Bank (also published in Review of Income and Wealth 48(2), 155–78).

Moss, T., & Leo, B. (2011). IDA at 65: heading toward retirement or a fragile lease on life? *CGD Working paper 246*. Washington, DC: Center for Global Development.

Murphy, K., Schleifer, A., & Vishny, R. (1989). Industrialization and the Big Push, *Journal of Political Economy 97*(5), 1003–26.

Narayan, D., & Petesch, P. (2007). *Moving out of Poverty*. Washington, DC: World Bank.
OECD (2011). *Latin American Economic Outlook: How Middle Class is Latin America?* Paris: OECD Development Center.
Palma, J. G. (2011). Homogeneous Middles vs. Heterogeneous Tails, and the End of the 'Inverted-U': It's All About the Share of the Rich. *Development and Change, 42*(1), 87-153.
Panizza, F. (2005a). Unarmed Utopia Revisited: the Resurgence of Left-of-Center Politics in Latin America. *Political Studies 53*(4), 716–34.
Panizza, F. (2005b). The Social Democratisation of the Latin American Left. *Revista Europea de Estudios Latinoamericanos y del Caribe 79*, 95–104.
Piketty, T. (1995). Social Mobility and Redistributive Politics. *Quarterly Journal of Economics 110*(3), 551–84.
Pritchett, L., Suryahadi, A., & Sumarto, S. (2000). Quantifying vulnerability to poverty: A proposed measure, with application to Indonesia. SMERU Working Paper, January. Jakarta: Social Monitoring and Early Response Unit.
Pritchett, L. (2006) Who is not Poor? Proposing a Higher International Standard for Poverty. World Bank Research Observer. 21(1): 1-23
Ravallion, M. (2009). The Developing World's Bulging (but Vulnerable) "middle class", *World Bank Policy Research Working Paper 4816*. Washington DC: World Bank.
Ravallion, M. (2010) Do Poorer Countries Have Less Capacity for Redistribution? *Journal Of Globalisation and Development. 1*(2), 1.
Scervini, F. (2009). *The Empirics of the Median Voter.* Turin, Italy: University of Torino.
Soares, S., Guerreiro Osorio, R., Veras Soares, F., Medeiros, M., & Zepeda, E. (2011). *Conditional Cash Transfers In Brazil, Chile And Mexico: Impacts Upon Inequality.* Washington, DC: Carnegie Endowment for International Peace.
Senauer, B., & Goetz, B. (2003). The Growing Middle Class in Developing Countries and the Market for High-Value Food Products. Workshop on Global Markets for High-Value Food. *Economic Research Service Working Paper 03-02*.Washington DC: USDA.
Sridharan, E. (2004). The Growth and Sectoral Composition of India's Middle Class: Its Impact on the Politics of Economic Liberalization. *India Review 3*(4), 405-428.
Standing, G. (2011) The Precariat: The New Dangerous Class. London: Bloomsbury Academic.
Sumner, A. (2012) Where do the Poor Live? World Development. 40(5): 865-877
Sumner, A. (2012a) From Deprivation to Distribution: Is Global Poverty Becoming A Matter Of National Inequality? IDS Working Paper. IDS: Brighton.
Torche, F. & López-Calva, L. F. (2012, Forthcoming). Stability and Vulnerability of the Latin American Middle Class. In Katherine Newman (Ed.) *Dilemmas of the Middle Class around the World.* New York: Oxford University Press.
Torgler, B. (2005). Tax Morale in Latin America. *Public Choice 122*(1/2), 133–57.
Wheary, J. (2009). The Global Middle Class is Here: Now What? *World Policy Journal 26*, 75–83.

Endnotes

---

[i] This is not intended as a systematic review of such literature. The studies discussed below were collated from searching social science databases and the individual archives of key economic and development journals. The websites of major academic organisations, institutes, and think-tanks were also searched for relevant grey literature. Studies were chosen if they met three criteria: (i) studies based on empirical analysis of "non-poor/non-rich" groups; (ii) studies published on data collected in the last five years (and thus reflecting the graduation to MIC status of a large number of countries since 2005); (iii) studies which are multi-country comparatives (not single or small group studies).

[ii] By such various absolute definitions, the "middle class" group is rapidly expanding, as noted earlier. For example, the AfDB (2011) and ADB (2010) with their definition of \$2–\$20/day per capita income, respectively estimate the "middle class" as 313m or 1 in 3 Africans (34%) and at least 1.9bn or 56% of the population of developing Asia.

[iii] The report suggests that larger families and ethnic minorities in the Philippines were more vulnerable to downward mobility than the female-led urban households, or those headed by a college or a high-school graduate (ADB, 2010, pp. 33–34).

[iv] There is a rich literature on vulnerability to poverty (See for example, Dercon & Shapiro, 2007; Hulme *et al.,* 2001; Pritchett *et al.,* 2000) which relates to drawing "the buffer zone". Such a "buffer zone" is important because numerous studies have shown that people move in and out of poverty (notably, Dercon & Shapiro, 2007; Narayan & Petesch, 2007).

[v] Pritchett (2006, p. 9) proposed that the World Bank should develop poverty lines at various levels with a lower bound of "destitute" (defined as under \$1/day), extreme poor (\$2/day), and global poor (below \$10/day), with the "non-poor" above that level.