

# The Evolution of the Middle Class in Latin America

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**In several Latin American countries** the middle class has not historically represented a significant proportion of the population. However, during the last few years, most countries in the region have experienced economic growth accompanied by decreases in income inequality, which has resulted in an increase in the share of the population belonging to the middle class in Latin America. This work traces the evolution of the middle class in 16 Latin American countries during the period 2001–2011.

## Data and methodology

The household surveys utilised in this work belong to the Socio-Economic Database for Latin America and the Caribbean (SEDLAC), a joint project between the Centro de Estudios Distributivos, Laborales y Sociales (CEDLAS) of the Universidad Nacional de La Plata (Argentina) and The World Bank's Poverty Group (LCSPG).

Regarding the definition of the middle class, absolute income thresholds are used to identify whether or not a household is part of this socio-economic group. In particular, the definition adopted is the one proposed by the Secretaria de Assuntos Estratégicos (SAE) da Presidência do Brasil.

In the empirical work, a household is considered middle class if it has a level of per capita household income between USD4.35 and USD15.23 a day at 2010 purchasing power parity (2005 PPP). Households with per capita household income lower than USD4.35 a day at 2005 PPP belong to a lower class, while those with per capita household income higher than USD15.23 a day at 2005 PPP are considered part of the upper class.

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When considering Latin America as a whole, the results confirm that the region's middle class has experienced a significant increase in the last decade: while it accounted for 40.7 per cent of the population of the region in 2001, by 2011 that share had risen to 51.4 per cent. In the same period, the size of the upper class also increased, from 13.1 per cent to 19.3 per cent. The trend was not consistent throughout the period: between 2001 and 2003 the size of middle class remained virtually unchanged in the region, but from 2003 to 2008 there was a strong growth in the percentage of Latin American households that moved from the lower to the middle class. Between 2008 and 2009 the growth of the middle class happened at a slower pace due to the international financial crisis, but after 2009 the share of this social group within the total population grew at a rate similar to that observed between 2003 and 2008.

## Is there convergence across countries in the population share of the middle class?

Was the evolution of the population share of the middle class similar across countries? If it was not, is there some pattern that helps to explain that different evolution between countries? The results show that the evolution

of the population share of the middle class was not the same in all countries: those countries where the middle class represented a lower proportion of the population in 2001 (e.g. Bolivia, Peru and Ecuador) had the highest growth rate in the population share of the middle class between 2001 and 2011.

By contrast, the countries with the highest population share of the middle class in 2001 (e.g. Uruguay and Chile) had the lowest growth rate in the population share of the middle class. In that sense, there appears to be some convergence in the proportion of the population that represents the middle class in the different Latin American countries. Those results are compatible with the predictions of Paes de Barros and Grosner (2013), who evaluate the evolution of income distribution by monitoring the population shares of the three income classes (lower, middle and upper).

The authors propose that the different stages of the process of transition from a poor society, where most of the population belongs to the lower class, to a wealthy society, where most of the population belongs to the upper class, can be characterised in terms of the relative size of the three income classes.

During the first stages of the development process the relative size of the middle class tends to increase, but when a country reaches a certain level of development, the relative size of the middle class starts to shrink. To put it differently, the middle class has a maximum size in each country.

Given that Latin American countries differ in their levels of income and development, the rates of growth of the population share in the middle class should also be different among them. Moreover, a contraction in the size of the middle class should be expected in those countries with the highest level of development.

In other words, while at first sight there is (seemingly clear) convergence in the size of the middle class across Latin American countries, a deeper examination of the process shows that this convergence is just a transitory result of countries with different levels of development moving through different stages of income distribution.

## References:

- Paes de Barros, R. and D. Grosner (2013). 'Middle Class Expansion and the Stages of the Transformation Process of Income Distribution', *Poverty in Focus*, No. 26. Brasília, International Policy Centre for Inclusive Growth.
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