

# Who You Callin' Middle Class? A Plea to the Development Community

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It's time to stop labeling millions of people in the developing world who have escaped \$2 day poverty as "middle class". The Asian Development Bank does it, and the African Development Bank does it. Abhijit Banerjee and Esther Duflo did it here and Martin Ravallion here.

People do not jump to a middle class way of life at \$2.01 a day. The \$2 a day international "line" of moderate poverty matters only in the abstract, not in the lives of people like Muljoko in Indonesia living on \$7 a day or Mohamed Bouazizi in Tunisia on about \$5 day when he immolated himself in late 2010, setting off the Arab Spring. People living on \$3 a day, median income in the developing world, and even Muljoko at \$7 a day, are not enjoying the economic security we associate with "middle class" in advanced economies.

This week the Financial Times did a good thing. It highlighted a huge new group in developing countries – as much as 40 percent of developing country populations over the next several decades -- that deserves its own identity: the fragile middle on a slippery ladder (where you can read about Muljoko) to a better life. We call them the strugglers in this paper with Nora Lustig and Christian Meyer and show that they are as a group at risk of becoming the "new poor" underclass of Latin America, because even with equally shared growth across all parts of the income distribution, absolute gains in the income of the true, secure middle class are greater than gains for the poor and strugglers, and leave the latter further and further behind.

There are other ways to label a group of people who are no longer poor by international standards, as their daily per capita income exceeds \$2, but are not yet members of the income-secure middle class: the vulnerable, the anxious poor, the nascent middle class, the strivers (a new label I like, courtesy of my colleague Lawrence MacDonald, because it captures the positive energy and readiness to work hard that characterize this group of escapees from dire poverty). All these labels reflect the reality of life for people not yet in the secure middle class — which, as I argue here, requires daily per capita income of about \$10, at least in Latin America. At about \$10 in Latin America, the probability of falling back into poverty is low enough so that there is in fact a "line" – the line at which people can be said to cross from income-insecure to income-secure.

Why does it matter that we stop calling people between \$2 and \$10 "middle class"? It matters for analysis of changes in consumer demand and the effects on growth of course. But it matters also for:

- shaping social insurance programs (which in many developing countries fail to reach people below \$10 a day);
- understanding the causes of informality (most workers in struggler households are in the informal sector);

- political analysis of tax policy and for defining relevant income groups in analysis of the incidence of taxes and transfers (our strugglers in Latin America pay high indirect taxes);
- fiscal policy, design of automatic stabilizers, and pricing of energy and water, as in the recent IMF study on fiscal policy and inequality;
- appropriate policy response to the street protests like those in Brazil last year, triggered by an increase in bus fares.

It matters for China and India as well, with the short-term prospect of a slowdown in their rapid growth likely to frustrate the strugglers – who though better off than they were, include many frustrated achievers with high expectations for ever-greater prosperity for themselves and their children. And perhaps in the advanced economies too a volatile global economy combined with the Second Machine Age of robotics is pushing more and more people in the one-time income-secure middle class down the slippery ladder, out of the middle class into a new category of anxious, fragile and vulnerable strugglers.

Thus my plea: Crucial research and policy issues like those above are obscured when researchers and development advocates who have comfortable, income-secure lives refer to others who are vulnerable, anxious, fragile strugglers and strivers as “middle class”. Labels matter.