

# **The Political and Social Implications of the ‘New Middle Classes’ in Developing Countries: A Literature Review and Avenues for Future Research**

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**Abstract:** This paper is concerned with recent drastic expansion of the ‘new middle classes’ in middle-income developing countries. We review existing models of political and social transition. We consider definitional questions; the economic and social circumstances; evidence on subjective outcomes and political (redistribution) preferences; and discuss potential political and social consequences, outlining a set of hypotheses and areas for future research.

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## 1. INTRODUCTION

We are witnessing dramatic transformations in the income levels of populations in many emerging economies. The net result is a burgeoning group of people who live above poverty but only just: the population of the developing world living above the absolute (moderate) global poverty line of US\$2/day has doubled since the early 1990s and the US\$2–10/day or US\$2–13/day accounts for almost half of the developing world's population (Ravallion 2010; Sumner 2012).

At the same time a (slightly) more affluent 'global middle class' of those consuming over US\$10/day has expanded significantly over the past decades. While such better off groups still account for relatively small population shares in their countries, their actual numbers are beginning to exceed those in advanced economies: in Asia alone over 525 million people now live on incomes between US\$10 and 100 a day – more than the entire population of the European Union (Wilson 2013: 2).<sup>2</sup> And around the world this population is expected to potentially grow by up to another 3 billion in the next two decades, making it the largest income group in the global income distribution depending on the assumptions one makes on growth and inequality trends and on whether one uses national accounts of survey means (Wilson 2013; Goldman Sachs 2008; Kharas and Gertz 2010). At the same time the total population in the US\$2–10/day (2005 PPP) range could be 3–4bn by 2030 (see Edward and Sumner 2013 for a range of scenarios) and if the ICP 2011 is taken at face value then this \$2-\$10 group is likely much bigger in numbers.

Not surprisingly, the expansion of both these middle classes (the lower insecure middle and the more prosperous upper middle) are a 'hot' topic in the media, the major global consultancy agencies and among some international development aid agencies.<sup>3</sup> In spite of the growing public interest, the social and political consequences of the growth of these new middle classes have received limited attention to date from political scientists, largely perhaps due to the expansion of these groups as being a relatively new phenomenon.

Much of the political science literature on the politics of economic transition dates from the late 1990s and early 2000s and does not yet take into account such recent estimates of the growth of lower and middle-income groups in emerging economies. As a consequence,

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<sup>2</sup> All dollar values in this document are reported in 2005 Purchasing Power Parity (PPP) terms.

<sup>3</sup> See, for example, *The Economist*, 1 June and 29 June 2013, the *New York Times*, 2 June 2013, reports by private sector consultancies (for instance, Goldman Sachs 2008; Wilson 2013), as well as by the growing grey literature of donor agencies (ADB 2010; AfDB 2011; Ferreira et al. 2013 for the World Bank and Kharas 2010 for the OECD).

available literature and measures of distributional change do not typically provide significant theorising nor empirical analysis of new, emerging and evolving conflict lines and political coalitions that might have emerged in the process of rapid expansion of the middle-income groups.

In light of the above, the objective of this paper is to fill a niche in the area identified by drawing together and critically discussing the recent literature, gaps in this literature and embedding this literature into the political science literature about transitioning societies. The paper is structured as follows: Section 2 reviews existing models of political and social transition. We argue that these theories are likely to overlook the new cleavages that arise in the context of rapid *lower* middle-income group growth. In particular the ‘standard’ three-class models that only distinguish between the poor, middle classes and elites, is ill-suited for capturing new divides between lower middle and more affluent middle classes in emerging economies today. In Sections 3 and 4 we review the literature by a set of emergent themes. We consider prevailing definitions of the ‘middle classes’. We compare relative with absolute definitions of the middle classes and argue that the former tend to understate the high degree of economic uncertainty that still prevails among the developing world’s middle-income groups and the latter tend to be (even more) arbitrary than absolute measures which simply take a ‘slice’ of the income distribution. We also consider the economic and social circumstances of the lower middle or vulnerable groups and discuss how these living conditions differ from established notions of upper middle or established ‘upper’ middle class. Section 5 then seeks to start to build theory related to the ‘new middle’ by proposing a set of hypotheses related to the political and social implications of the expanding ‘new middle’. Section 5 concludes and outlines avenues for future research arising from the review and set of hypotheses.

## **2. TYPES OF MODELS OF MIDDLE CLASS GROWTH**

A natural starting point for our discussion is the literature on the political economy of middle class growth. ‘Classical’ models of middle class development, associated with modernisation thinkers like Barrington Moore (1966), Seymour Martin Lipset (1959, 1960) or David Landes (1998) argue that growth in middle-income groups is associated with higher entrepreneurial activity, investments in human capital and democratic development. This is because the middle classes’ economic prospects traditionally depend more on professional skills and income than on inherited capital (Acemoglu and Zilibotti 1997; Doepke and Zilibotti 2007),

progressive political and market-friendly value systems of middle class citizens (Easterly 2001; Lopez-Calva et al. 2011; Lipset 1960; Przeworsky (1985), and because of the middle classes' ability to play a mitigating role in conflicts between elites and extremist movements (Lipset 1959: 58; Easterly 2001; Easterly et al. 2006; Barro, 1999).

One can contrast these 'conventional' models of middle class growth to alternative theories that highlight the role of upwardly mobile groups that can be neither classified as 'poor' (in an absolute sense) nor 'middle class' in any meaningful sense of a shared identity (Korpi 1983; Therborn 1977, 1979; Rueschemeyer et al. 1992; Leventoglu 2013; Ansell and Samuels 2010). We posit that, even though most of these theories have not been developed with the situation of today's emerging economies in mind, they may capture local realities there remarkably well because in most emerging economies the middle-income groups that have benefited most from recent growth are still relatively close to the international poverty lines of US\$2 per day. While these groups may no longer have to struggle daily for survival (at least as much as those below US\$2/day), and while they begin to spend increasing amounts of their disposable income on durable consumer goods and their children's human capital, they still face often high probabilities of sliding back into poverty (see for empirical examples, Lopez-Calva and Ortiz-Juarez 2011; Sumner et al. 2014). We hypothesise that this creates new pressures for reform, as the majority of populations in the lower middle-income ranges have increasingly strong incentives to demand more social protection-type policies, notably social insurance against shocks in income from health or employment shocks or stressors (see Mallet and Sumner 2013) and in respect of their individual property rights from the state.

Another major influence on our discussion is the literature on the interaction of social mobility, growth and redistribution preferences (Hirschman 1973; Piketty 1995; Ravallion and Lokshin 2000; Benabou and Ok 2001; Alesina and La Ferrara 2005; Leventoglu 2013). In particular Hirschman (1973) has argued that, in the early stages of economic development, people are more likely to accept higher levels of inequality, because they perceive strong prospects for their own upward mobility. In a similar vein, popular political economy models, such as Benabou and Ok's (2001) 'prospect of upward mobility (POUM) hypothesis, posit that people who believe they or their children will have strong prospects for upward mobility in the future are less likely to support redistribution in the present, because they want to lower the tax burden for themselves and their children in future time periods (see also Piketty 1995). But most theories agree that these attitudes weaken as more permanent inequalities emerge, or as groups begin to face real or perceived threats of falling behind.

One could suggest that theories on social comparisons and mobility experiences provide relatively good descriptions of the behaviours and attitudes of more affluent middle classes. Even at the comparatively low levels of economic development that still characterise emerging nations today, experiences and preferences of affluent groups are already shaped by fears of downward mobility and feelings of relative deprivation more often attributed to the ‘squeezed middle classes’ in advanced industrialised economies (Frank 2007). However, there are indications that for lower-income and vulnerable groups concerns about daily experiences of economic uncertainty and relatively precarious work conditions override the effects of social comparisons and positive upward mobility prospects. This leads to political divides over the design and targeting of social policies and social protection programmes between vulnerable groups and affluent middle classes that can potentially undermine the future of the social contract in these economies. Moreover, it suggests that, in the case of emerging economies, there is still a need to consider both absolute and relative living standards and mobility prospects when analysing the behaviour of rapidly expanding population majorities on lower middle-incomes.

### **3. THE NEW MIDDLE CLASSES: METHODOLOGICAL AND THEORETICAL OBSERVATIONS**

#### *3a. A methodological reservation*

Before we enter this discussion it is necessary to make a number of observations about the strengths and weaknesses of the evidence reviewed here. We believe that the primary strength of the studies we discuss in this paper comes from the greatly enhanced level of detail of the data sources on poverty reduction and middle-income growth that support most of the studies reviewed here. Most of the economic studies and even the grey literature we cite draw on repeated household income and expenditure surveys and databases that are well tested and widely used for official estimates of international poverty and growth trends.<sup>4</sup> Other country specific studies use longitudinal panel datasets. Even though these data are still little used in the academic literature on political transition, they represent important advances relative to simpler indicators of economic and distributional change (like per capita GDP or the Gini).

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<sup>4</sup> These surveys are now accessible to wide research audiences through online tools like PovcalNet.

By contrast, evidence is much weaker when it comes to establishing how upward mobility experiences of lower and middle-income groups shape individual political and social behaviour. To this date most studies of middle class preferences and behaviours have to rely on cross-sectional value and perception surveys, which only provide limited income information and typically do not track individuals over time. These studies primarily provide snapshots of the distribution of preferences across relevant income groups. However, in the absence of more elaborate panel surveys that track values and behaviours over time it is much harder to causally link upward mobility movements to new preferences that would be likely to trigger political reforms.<sup>5</sup> For the time being most of the available evidence has to be interpreted as largely descriptive accounts of the distribution of preferences in emerging economies. It will be reserved for future analysis to document how relevant attitudes and behaviour change over time as formerly poor individuals move along the income ladder (as per Wietzke 2013).

### *3b. Theoretical points of departure*

There is a long tradition of linking poverty reduction and middle class growth to political transitions and democratisation processes. Starting from modernisation theory, analysts of political transition have suggested that falling poverty numbers and middle class growth are conducive to the emergence of stable democracies. This argument is based on historical observations about the role of bourgeois middle classes in the development process of advanced European democracies, as well as on more recent cross-national statistical associations between the size of middle-income groups and political development/stability and social cohesion (Barro, 1999; Easterly 2001; Easterly et al. 2006; Przeworsky, 1985). Other theories make similar claims, based on a simple calculus of the interactions between local elites, poorer groups and middle classes. Drawing on the well-worn median voter model Boix (2003) and Acemoglu and Robinson (2006) respectively argue that falling or middling inequality levels increase the chances of political reform/democratisation, because elites are more likely to agree to power sharing when they face fewer threats of expropriation by the poor ‘masses’. In this framework middle classes primarily function as ‘deal makers’ or ‘buffers’ between poor groups and elites, implying again that larger middle classes are

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<sup>5</sup> The problem is ultimately one of reverse causality. Cross-sectional studies of middle class behaviours cannot distinguish whether people develop new beliefs and behaviours as they grow wealthier, or whether they grow wealthier because they had more ‘progressive’ work-centred attitudes in the first place.

associated with a greater likelihood of democratic transition (Acemoglu and Robinson 2006: 253ff).

A central argument of our paper is that these theories are often too limited to capture the diversity of, and often complex relations between, lower and middle-income groups in emerging economies today. Other theories offer more guidance. In the literature on democratisation and welfare state regimes in advanced capitalist societies there is a long tradition of research that emphasises lower-income groups outside of the established poor, middle class, elite framework. For example Power-Resource Theory and historical accounts of redistributive policies identify urban working classes, who already benefited from rising real wages and who were politically organised, as the primary agents of democratisation and political change (Korpi 1983; Therborn 1977, 1979; Rueschemeyer et al. 1992; Leventoglu 2013: 2). These theories generally suggest that relations between lower and middle classes are more conflictual than typically suggested by conventional models of middle class development. For example Rueschemeyer et al. (1992) suggest that ‘middle classes first and foremost sought their own inclusion and formed the alliances necessary to achieve this end’ (p.168). But they often oppose suffrage extension to working classes ‘as such a move posed a potential threat to their interests (*ibid.*: 6). More recently Leventoglu (2013) presents a model where middle classes in developing country autocracies collaborate with elites when they feel secure about their future prospects. However, middle classes demand political reforms when they feel insecure about their future status.

More recent contributions appear to capture the situation in emerging economies even more accurately. Ansell and Samuels (2010) focus on upwardly mobile, but vulnerable groups as the primary agents of change. They argue that the accumulation of assets by these groups creates strong demands for the extensions of economic and political freedoms, as upwardly mobile households are particularly likely to defend their hard-earned economic gains against infringement of their property rights by elites. In a slightly different vein, Reenock et al. (2007) have suggested that radical demands for redistribution are more likely to occur if growth takes place at lower levels of income. This is because citizens will notice cases of extreme deprivations more easily and regard them as less acceptable as average incomes increase (see also Dion and Birchfield 2010). The implication is that studies of distributional conflicts need to take into account developmental context, because absolute dimensions of distribution, like basic needs deprivation, are likely to dominate over relative inequalities typically emphasised in the literature.

One could argue, based on a review of the literature (see below) that the basic preconditions for these theories might hold in many emerging economies today. Based on the available evidence we conclude that the majority of people who have recently moved out of poverty increasingly invest in assets, and their own or their children's future mobility, which suggests that these groups will demand more rights in the near future. At the same time there are clear signs that more affluent middle classes already begin to perceive threats to their advantaged positions that make it less likely that they will concede new rights to upwardly mobile groups.

The implication of these alternative accounts is that emerging economies today are not likely to follow the linear trajectories of interlocking inequality change and political transition normally suggested by standard political economy models. While existing elite and middle class-centred theories typically assume that social and political relations will gradually become more consensual as poverty and inequality levels continue to fall (Acemoglu and Robinson 2006; Boix 2003), the more complex realities described here suggest that conflicts over political outcomes are likely to increase as growing numbers of people join the lower middle-income ranks. The more peaceful outcomes typically described in the literature on middle class development are only likely to emerge as these groups move on to join the more affluent classes (Ansell and Samuels 2010; Reenock et al. 2007; Wietzke 2013: 21).

### *3c. Relative deprivation and mobility*

A further broad body of relevant literature concerns notions of relative deprivation and mobility. The primary argument made by theorists, such as Hirschman (1973) or Benabou and Ok (2001), is that predictions about political behaviour and preferences will deviate from standard decision models (like median voter theory) once social comparisons and mobility expectations are accounted for in the analysis. Even groups that are well-off can show little support for existing political institutions if they fear downward mobility or if they get caught in the race of perpetually comparing their living standards to those higher up. On the other hand poor groups, who should normally demand more redistribution by virtue of their deprived economic circumstances may show unexpectedly high tolerance of inequality if they anticipate to be mobile in the future (Benabou and Ok 2001).

As noted above, one can argue in partial agreement with these theories when it comes to the situation of today's emerging economies: on the one hand, rapid growth and the

presence of large upwardly mobile lower-income groups that are catching up in economic terms seem to be particularly conducive to creating feelings of relative deprivation among affluent middle classes. This, and the general tendency of more affluent households to compare themselves to wealthier elites, can deepen described divides between middle classes and vulnerable lower-income groups.

On the other hand, one could agree with earlier scholarship that, when the developmental context of today's emerging economies is taken into account, absolute forms of distribution, like extreme economic vulnerability and basic needs deprivation, are often better predictors of political behaviour than relative comparisons or mobility prospects (Reenock et al. 2007). In particular for households just above the poverty line, who face a realistic risk of sliding back into absolute poverty, behavioural effects of upward mobility may be 'crowded out' by experiences of basic needs deprivations and economic uncertainty. These households may be willing to trade off concerns about higher future taxes for their current preferences for social protection and government intervention.

The analytical implication of this result is that predictions of the behaviour of lower middle-income groups requires careful investigation as to how relative positions in the income distribution (i.e. attaining a status as lower middle-income in a national distribution) compare to actual objective living standards of relevant middle-income groups. The following sections investigate this question, by discussing first the tension between relative and absolute definitions of middle classes in the current global income distribution. We will then ask how the living conditions of lower middle-income groups compare to economic and subjective circumstances typically associated with middle class status in the standard models of middle class-driven development.

#### **4. WHO ARE THE MIDDLE CLASSES?**

##### *4a. Relative versus absolute definitions of middle classes*

There has traditionally been a proliferation of competing middle class concepts and definitions. The recent literature on emerging economies' middle classes is no exception. Economists, whose work dominates the recent literature on emerging economies' middle

classes, typically rely on statistical definitions of middle class status.<sup>6</sup> For example, an early study by Easterly (2001) focuses on the 20th and 80th percentiles on the consumption distribution to document the existence – or absence – of a ‘middle class consensus’. More recently Birdsall et al. (2000) use the range from 75% to 125% of national median income, allowing the population size of the middle class to vary across countries. On the other hand, sociologists and political scientists working in the Marxist or Weberian tradition define middle class status by the type of assets individuals bring to the market. These studies typically rely on household asset information, widely available in value and perception surveys.<sup>7</sup> Asset information is then transformed into continuous wealth indices, using methods like Principal Component Analysis, and middle classes are identified using some range around the index mean (typical cut-offs lie between the 20<sup>th</sup> and 90<sup>th</sup> deciles; see for instance Cramer and Kaufman 2011, Lopez-Calva and Torche, 2011; Lopez-Calva et al. 2011). Finally several studies have used people’s subjective assessment of their class status, drawing on subjective income and class categories regularly included in international value and perception surveys like the World Values Surveys project (Amoranto et al. 2010; Ferreira et al. 2013).<sup>8</sup>

While based on very different dimensions of wellbeing, all of these approaches have in common that they conceptualise middle class status in *relative* terms. Membership in the middle class is determined in relation to some benchmark, based on average incomes, assets or subjective rank, which are allowed to vary across countries and time. These middle class definitions capture social comparisons and psychological processes that are at the centre of theories of political economy models about relative deprivation and mobility (Birdsall et al. 2000). However, such approaches do not tell us about actual or material living conditions of households in the relevant income brackets. This makes it harder to compare changes in living standards across countries and it omits information about actual economic risks and requirements that may be important for explaining political behaviours and preferences at lower-income levels.

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<sup>6</sup> The preference for relative measures in earlier studies is likely related to the comparatively better availability of relative income scales (e.g. UN WIID WIDER or Deininger/Squire inequality databases).

<sup>7</sup> Note however, that there is usually a tension between the range of measures included in the wealth index and other household attributes needed to predict behaviour and wellbeing of middle classes. For example, education, which is generally considered a central characteristic of social status in the Weberian tradition is typically excluded from these models, because it is used as an independent factor in the explanation of political behaviour and mobility experiences (Lopez-Calva and Torche, 2011; Lopez-Calva and Ortiz-Juarez 2011).

<sup>8</sup> However, these studies typically have to deal with the problem that self-reported middle class shares are typically over reported, leading to larger middle class shares than would be economically feasible.

The problem with purely relative definitions of middle class size becomes particularly clear when one considers variations in economic wellbeing between advanced and emerging economies. It is well known from the literature on global poverty and inequality that income differences between the emerging and the developed worlds are so large that most middle-income households in emerging economies would still be considered as poor in developed country terms. In one illustrative example Ravallion (2010: 4) notes that the ‘Xiaokang’ in China, an official income category that resembles the idea of a ‘middle class’ in local terms, required an income of US\$2.24 per day in PPP terms in rural areas and US\$3.47 a day in urban areas in 1991,<sup>9</sup> far below the official poverty lines of most advanced economies (for example, US\$13/day in the US). He also shows that the bulk in recent income growth in the emerging world is bundled just above the moderate international US\$2 poverty line.<sup>10</sup> This latter result is supported for a smaller sample of countries by Banerjee and Duflo (2008), who observe that groups between the 20th and the 80th percentile of the income distribution, which was used to define developing countries’ middle classes under the relative definition of Easterly (2001), are concentrated between the global US\$2 poverty line and US\$4/day.<sup>11</sup>

Such trends are mostly driven by Asia (with China alone accounting for half of the developing world’s share in lower middle-incomes) and to a lesser extent by sub-Saharan Africa (AfDB 2011). However, within the relatively homogenous group of emerging economies, and adjusting for PPP, ‘middle-income’ households under this definition would still be considered as poor in emerging regions with higher living standards. For example, poverty lines in Latin America and some Eastern European nations tend to converge around approximately US\$4. As a consequence cross-regional studies of middle class growth also include alternative higher poverty cut-offs to capture realities in more advanced emerging economies.<sup>12</sup>

By contrast, ‘affluent’ middle classes that approach living standards of non-poor middle-income groups in advanced economies still account for relatively small population proportions in emerging economies today. An early study by Milanovic and Yitzhaki (2002) finds that only an estimated 11% of the world’s population can be considered as ‘middle

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<sup>9</sup> Similar income ranges are often used in the debate about Indian middle classes (Ravallion 2010).

<sup>10</sup> Ravallion estimates that the group on incomes between US\$2–13 grew in total by about 1.2 billion.

<sup>11</sup> This result holds in a sample of household surveys from 13 low and lower middle-income countries. The exceptions are rural India and Pakistan where the majority of the population still live on less than US\$2/day and Panama where middle classes are wealthier.

<sup>12</sup> For instance Banerjee and Duflo (2008) introduce a second higher middle class cut-off of US\$6/day, and Ravallion (2010) defines ‘upper middle classes’ from a US\$9 lower bound upwards. Other studies of vulnerable and middle-income groups in Latin America generally start from the US\$4 poverty line (see for instance Birdsall et al. 2013; Ferreira et al. 2013).

class', using Italy's mean income as the upper cut-off and Brazil's mean income as the lower bound,<sup>13</sup> (compared to another 11% among the rich and 78% 'globally poor' individuals).

More recent studies, which define affluent middle classes to fall between PPP adjusted incomes between US\$10–100/day, estimate that only about a quarter of the world's population falls between this income range. Of these 60% live in the developed world and another 20% in the BRIC countries (Wilson 2013; Kharas and Gertz 2010). This said, there are impressive growth forecasts for this group. Various estimates suggest affluent middle classes will constitute between 50% and two thirds of the world's population by 2030 – up from 29% in 2008.

#### *4b. The objective and subjective living conditions of lower middle classes*

Following the results above the largest and fastest growing populations in emerging economies now live on incomes that fall between the poverty lines of emerging and advanced economies (e.g. \$US2 or US\$4 to US\$10 or US\$13): most definitions of the developing world's middle class start from the international 'moderate' poverty line of US\$2 in PPP terms with higher poverty cut-offs used in more developed emerging regions like Latin America. The upper threshold for these vulnerable groups is usually set around US\$10/day. For example, Banerjee and Duflo (2008) and Birdsall et al. (2013) use US\$10/day as their upper threshold for a 'developing world's middle class', based on their observation that the majority of non-poor households in emerging nations still falls below this income level. Ravallion (2010) uses the US poverty line of US\$13/day, to explicitly account for the large differences in official poverty definitions and underlying social realities of poverty in advanced and emerging economies.

It should be clear that even in developing economies households falling into this income range still face often extreme degrees of economic uncertainty. Lopez-Calva and Ortiz-Juarez (2011) and Birdsall et al. (2013) note for Latin America that households below US\$10/day have much higher probabilities of sliding back into poverty (Lopez-Calva and Ortiz-Juarez estimate a probability of poverty of about 10% at the US\$10 line, with much higher values for lower-incomes). They argue that this justifies distinguishing explicitly between non-poor 'vulnerable' groups and more affluent middle classes who have attained a

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<sup>13</sup> At the time of Milanovic's and Yitzhaki's study Brazil's was close to US\$10/day, the average level of Western countries' relative poverty lines (p.172).

higher degree of economic security. Banerjee and Duflo (2008) and Ravallion (2010) also acknowledge the high degree of economic insecurity of households in this income range.

These relatively precarious circumstances raise the obvious question as to whether, contrary to relative definitions, the emerging world's upwardly mobile population majorities can be legitimately classified as 'middle class'. Do the circumstances of vulnerable groups between US\$2 and US\$10/day differ sufficiently from households below extreme poverty lines to consider them as genuinely 'non-poor'? And do these groups have other attributes that would justify the expectation that these groups would drive change in the same way as it is often attributed to middle classes in the European development process? The literature indeed points to some important characteristics and behaviours that distinguish this group from extremely poor households. But it is equally fair to conclude that populations in the vulnerable income range differ from more affluent middle-income households on many dimensions that are traditionally associated with middle class status.

The primary area where vulnerable groups begin to resemble the living conditions of affluent groups is household consumption and health. Birdsall et al. (2013: 7f) identify a group in Latin American that they call the 'strugglers' who live below US\$10/day and spend just 24–36% of their disposable income on food and other necessities, the rest going to 'middle class' goods like appliances or vehicles (so much less than the 70–90% of consumption spent on food by the poor). Banerjee and Duflo (2008) also report strong differences between households below the absolute US\$2 poverty line and vulnerable groups with respect to dwelling characteristics. In particular at the upper range of the US\$2–10/day groups, households are much more likely to have better access to basic sanitation, electricity and bigger houses than the extreme poor.<sup>14</sup> Better access to electricity also goes along with a higher likelihood of television ownership, which could influence behaviours and aspirations by improving access to news and information.

Households in the vulnerable income bracket also begin to care more about their physical wellbeing and the health of their household members. Banerjee and Duflo (2008) show that the vulnerable and middle-income groups spend more in absolute and even in relative terms on health than the poor. These higher health investments are reflected in higher

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<sup>14</sup> This may have to do with the fact that many lower/middle class households live in urban areas, but the trends broadly hold for rural areas as well.

life expectancy.<sup>15</sup> There are also signs that aversion to risks increases, as insurance coverage expands among vulnerable groups (most of which for health).<sup>16</sup>

These trends make it very likely that there will be increased political activity among upwardly mobile populations. The increased ownership of assets and human capital create strong incentives for this group to demand new policies that protect their property rights and social progress (Ansell and Samuels 2010).

Education is generally considered as one of the most important attributes behind progressive economic and political attitudes of middle class citizens. However, there are few indications that vulnerable groups approach circumstances of affluent middle classes on this dimension. In Lopez-Calva and Ortiz-Juarez (2011) and their ‘vulnerability approach to defining the middle class’, education, especially tertiary, emerges as a strong predictor of differences between vulnerable groups and middle classes above US\$10/day. Birdsall et al. (2013) also find that education distinguishes vulnerable from affluent middle classes. Affluent middle class households are much more likely to be headed by an individual with completed secondary education than the strugglers on incomes below US\$10 a day.

Castellani and Parent (2011) find that university education, often seen as the strongest predictor for ‘progressive political attitudes, almost exclusively remains reserved to the more affluent populations.<sup>17</sup> There are also signs that education still represents a barrier to upward mobility that affects poor and vulnerable households more than more affluent classes. Ferreira et al. (2013) and Torche and Lopez-Calva (2011) find for Latin America that upward mobility was less likely for individuals from households with lower educational background. In particular, movements into the middle class were still much likelier for people who had some tertiary education (Ferreira et al. 2013: 7).

There are, however, signs that educational differences between vulnerable and affluent middle-income groups will matter less in coming years. Banerjee and Duflo (2008) find that the share of household expenditures devoted to education remains roughly similar with rising incomes. This not only implies a net increase in absolute amounts spent on schooling. Investments in human capital also tend to be concentrated among fewer children. The same study finds that the number of children per adult woman in the household drops by at least 0.5 when households move from the extreme poor to the US\$2–4/day category and again by about the same amount when one goes from the \$2–4/day category to the \$6–10/day

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<sup>15</sup> This result also holds in a small number of panel surveys analysed by the authors.

<sup>16</sup> However, coverage barely extends to one third in most rural samples and two thirds in urban areas (Banerjee and Duflo 2008, Table A15).

<sup>17</sup> The authors do not specify how middle and affluent classes are defined.

category (the number of children actually drops by more than one in Nicaragua, Pakistan and Peru). At the same time, the share of children aged 13–18 in school increases dramatically as income rises and the number of children in higher quality private schools rises. This suggests that income growth, in combination with accompanying demographic transformations, leads to changes in human capital investments that increasingly among vulnerable groups begin to resemble the patterns commonly associated with middle class development. It appears that even households who are still in relatively precarious circumstances are making very conscious decisions to improve the prospects for upward mobility for their children.

Occupational status, particularly in the form of secure long-term employment contracts or entrepreneurial activities, represents another dimension where there are strong differences between vulnerable and affluent groups. Birdsall et al. (2013) document that the Latin American ‘strugglers’ on incomes between US\$4 and US\$10/day are more likely to be in informal, self-employed relationships in the primary sector than the more affluent middle classes. This result is supported by Banerjee and Duflo (2008), who find that work conditions of vulnerable groups resemble those of the poor more than the affluent middle classes. Households on incomes just above the absolute poverty line, are still often engaged in informal, self-employed activities that do not provide much security or chances for professional improvement. The only difference to poorer groups is that households in the vulnerable income bracket tend to have steadier and better-paid jobs.

In Lopez-Calva and Ortiz-Juarez (2011) occupation, especially in interaction with rural-urban differences emerge as a strong correlate of differences between the poor and vulnerable groups on the one hand and middle classes on incomes above US\$10 on the other. This study is based on panel data and is thus able to account for initial household attributes. Taken together these results suggest that vulnerable groups are still far from reaching into the professional careers and enterprising behaviours often associated with middle class status. In the words of Banerjee and Duflo (2008),

While there are many petty entrepreneurs among the middle class, most of them do not seem to be capitalists in waiting. They run businesses, but, for the most part, only because they are still relatively poor and every little bit helps. If they could only find the right salaried job, they might be quite content to shut their business down.

In the following section we propose a set of hypotheses emerging from the discussion above on the literature.

## 5. THEORISING THE ‘NEW MIDDLE’: A SET OF HYPOTHESES

### *5a. Hypothesis 1: On middle class growth and political behaviours*

The relative large differences in the living conditions between lower and middle class individuals, and the relatively precarious circumstances of emerging economies’ population majorities just above the poverty line, raise obvious questions about the political behaviour and relations within the new middle-income groups. As noted before, the theoretical literature has several hypotheses of how experiences of mass mobility are going to influence political outcomes.

Popular theories of political decision-making, like Meltzer and Richard’s (1981) well-known median voter model, suggest that people on rising incomes should gradually lose their taste for radical redistribution. Most models of preference formation in the presence of past mobility experiences also suggest that people who are upwardly mobile and expect to pay higher taxes in the future would prefer less redistribution (Benabou and Ok 2001, Piketty 1995). In both cases, rapid expansion of upwardly mobile non-poor populations should gradually shift the political consensus to the right, away from high taxation and high social spending. The result should be a positive change in political outcomes, by reducing the political distance between elites and poorer populations and by lowering the risk of political conflict over redistribution (Acemoglu and Robinson 2006; Boix 2003; Easterly 2001).

Against these expectations stand the predictions from theories of relative deprivation and the relatively precarious living conditions of the large vulnerable lower middle-income groups. Relative deprivation theories, like Hirschman’s (1973) ‘Tunnel Paradox’ suggest that rapid economic transformation and lower-income growth would lead to heightened fear of relative downward mobility among affluent middle classes. High levels of economic risk and insecurity, and the limited occupational prospects among lower-income households make it more likely that these groups will demand more redistribution and/or protection, even if its members perceive higher prospects for upward mobility. The results would be deeper divides between affluent middle classes and lower-income groups and higher risk of political conflict.

In economics and political science there is already a large literature on the interaction between inequality and redistribution and voter preferences. These studies generally do not typically find strong support for the predictions of standard political economy models like the

median voter model. In particular in emerging regions with traditionally high levels of inequality, like Latin America, people generally do not report strong demands for redistribution (Blofield and Luna 2011; Cramer and Kaufman 2011; Kaufman 2009, 2009b). Evidence is also weak for more specific predictions about the effect of individual incomes on redistribution preferences. In most cases personal income predicts demand for redistribution less well in countries with lower levels of economic development and deeper inequalities (Ansell and Samuels 2011; Cramer and Kaufman 2011; Dion and Birchfield 2010; Haggard et al. 2013; see also Kenworthy and McCall 2007; Lübker 2007 for similar evidence from advanced economies).

In the recent ‘middle class’ literature for emerging economies there are indications that predictions of standard economic models are offset by the largely precarious nature of living conditions of vulnerable lower-income groups. The first finding that emerges from this literature is the general lack of a strong ‘middle class’ identity among the vulnerable groups. Ferreira et al. (2013), who compare economic and subjective class categories in Latin America, fail to find strong evidence that vulnerable income groups identify themselves with affluent middle classes. In perception surveys from Colombia, Mexico and Peru there is a remarkable correspondence between the widely used ‘vulnerability-threshold’ of US\$10 and people’s self-placement as belonging to the lower-income groups or lower middle class.<sup>18</sup> This subjective threshold rises in wealthier countries like Brazil and Chile (the cut-offs are US\$16 and US\$20/day respectively). This suggests that, even in countries where vulnerable groups account for the majority of populations in the middle of the income distribution, self-assessments are still influenced by the close proximity in living conditions to those of poorer income groups. Other studies also indicate that psychological and social perceptions in the vulnerable group are strongly influenced by the experience of economic insecurity. Yuan et al. (2010) find for China that, while lower middle class status is generally associated with small increases in life satisfaction, the group on incomes from US\$2–10/day still reports above average concerns about the stability of life in the future (urban only).

For wealthier groups subjective status assessments overlap more closely with material attributes typically associated with middle class status. Amoranto et al. (2010: 8f) find in a large cross-national sample of responses from the World Value Surveys that higher educational attainment and more skilled occupations are associated with higher probabilities

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<sup>18</sup> More specifically the authors find that incomes of approximately US\$10 emerge as the lowest threshold at which more people consider themselves as belonging to lower or lower middle classes than other wealthier income groups.

of self-reporting a higher class status. This is consistent with the results above that the shift from vulnerability to middle class status is associated with a much higher probability of being in secure, formal sector employment and having higher education (particularly tertiary).

There are, however, few signs that these differences lead to the type of progressive values commonly associated with middle class status. Assessments of the political attitudes of vulnerable and affluent middle classes fail to find signs of strong ideological differences for any of the groups in question. Lopez-Calva and Ortiz-Juarez (2011), who compare attitudes on composite indices of Latin American survey responses relating to trust in institutions, perceptions of opportunity, legitimisation of political violence and left-right partisanship, fail to find strong evidence of a discrete ‘middle class identity’. Typically attitudes change monotonically with incomes, but affluent middle classes do not stand out as a group with particularly distinct preference structures (if there are groups that differ systematically, it is generally the poorest or wealthiest).<sup>19</sup> Moreover, responses vary little across income classes with generally much larger differences between countries (see also Cramer and Kaufman 2011). Amoranto et al. (2010: 10f) find on a global sample from the World Values Survey that people who perceive themselves as ‘middle class’ are more likely to report preferences for economic policy, gender equality and higher values of perceived trust than the lower class. However, this relationship is again monotonic with more liberal values and attitudes among respondents who place themselves in the upper class.<sup>20</sup> These results thus undermine the idea that middle classes act as and/or represent socially coherent and politically distinct groups in ways that would establish them as agents of change within their societies.

At the same time there are indications that attitudes of emerging economies’ middle classes begin to shift from a preoccupation with material dimensions of wellbeing to non-material outcomes in ways that follow earlier attitudinal changes in more affluent societies. For example, the aforementioned study by Yuan et al. (2010) finds that Chinese respondents whose incomes approach upper middle class status (US\$6–10) also reported considerably lower values of self-perceived health. While it is not clear if this reflects actual health problems or changes in sensitivity to physical wellbeing, the results are remarkably consistent with the well-documented finding for developed economies that income is increasingly

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<sup>19</sup> Lopez-Calva et al. (2011) find that middle classes appear less willing to support individual rights even though they show higher values of social tolerance.

<sup>20</sup> Both studies deal with missing survey information on household income by estimating regression models that predict permanent household income (Lopez Calva et al. 2011) and subjective class status (Ameranto et al. 2010) on the basis of observed household attributes like assets or educational and occupational outcomes.

replaced by qualitative aspects of life in the wellbeing evaluations of people enjoying higher material living standards (Easterlin, 1974).

Clearer differences between lower and middle-income groups emerge when one focuses directly on redistribution preferences. Here there are strong signs for an emerging conflict between vulnerable groups and the affluent middle classes. For the latter group there already exists a worrying resemblance with psychological patterns typically associated with the ‘squeezed middle classes’ of advanced industrial economies (Frank (2007). Even at the relatively low levels of average income in emerging economies, attitudes of many affluent middle class citizens appear to be influenced by feelings of relative deprivation and fears of downward mobility. Graham and Pettinato (2002) find for Latin America that, while absolute income levels matter more for the subjective wellbeing of lower-income groups, relative differences become much more important for those in more comfortable economic circumstances. They also identify a large group of ‘frustrated achievers’ in Peru, who, despite experiencing significant gains in their incomes, remain unsatisfied with their relative status in society. They speculate that this has to do with the fact that these individuals compare themselves to groups higher up on the income ladder. Ravallion and Lokshin (2000) report for Russia that non-poor households who feared a fall in their incomes supported stronger redistributive policies. Both of these studies use panel data and are therefore able to make very precise statements about individual mobility trajectories.<sup>21</sup>

By contrast, preferences of poorer and vulnerable groups appear to be dominated by the largely precarious nature of their living conditions. While the majority of vulnerable households probably has personal experiences of upward mobility, and even though their investment in insurance and human capital of their children reflects a strong concern about the future, it does not appear that this group is willing to trade off its fear of higher future taxes for its taste for current redistribution. Cramer and Kaufman (2011) find that, even though redistribution preferences of poorer and middle-income groups does not respond in the expected way to inequality, their dissatisfaction with inequality is reduced considerably in times of high growth. They argue this suggests that feelings of relative deprivation are at play. This result is broadly consistent with the work of Reenock et al. (2007), who show that democratic breakdowns are more likely to occur in rapidly growing societies that still have large shares of households with unmet basic needs. Haggard et al. (2013) document that unskilled and semi-skilled workers and those residing in large cities are more inclined to

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<sup>21</sup> However, Ravallion and Lokshin cannot account for initial redistribution preferences.

support redistribution. (Interestingly this study finds lower support for redistribution, among unionised workers. This may be a sign of insider-outsider conflicts between those in the informal and formal sector.)

Recent work by Wietzke (2013) underlines that these differences between lower and middle-income groups can contribute to very strong disagreements over social policy priorities. This study, which cannot account for problems of reverse causality, overcomes the problem of lacking income data in perception surveys by tracking changes in average support for redistribution along with changes in poverty reduction and lower/middle-income group size. It finds relatively strong non-linearities that indicate a difference in redistribution support across vulnerable and affluent middle-income groups. Public support for redistribution increased primarily in societies where poverty reduction was accompanied by growth in the share of economically vulnerable groups up to a poverty threshold of around US\$4 a day. By contrast, the estimated association with distribution preferences gradually disappears in societies that experienced growth among more affluent middle-income groups. This latter result could indicate growing divides over protection to poor and vulnerable households as the political balance shifts towards wealthier middle classes.

#### *5b. Hypothesis 2: On aggregate-level institutions and policy outcomes*

As noted before, a central prediction of theories of lower middle class development is that emerging economies undergoing rapid growth should follow non-linear development trajectories. In particular, in the early stages of middle-income growth, tensions related to widespread economic deprivation should not diminish, as large sections of the populations would still express strong preferences for government redistribution and social protection. More stable outcomes would only emerge once poorer population majorities also approach middle class living standards.

The literature has had well-known difficulties in establishing a link between regime type and development performance, due to omitted variable and reverse causality problems (Acemoglu et al. 2005; Gerring et al. 2012; Lake and Baum 2001). In the case of middle class growth this problem is exacerbated by a general lack of detailed evidence on the growth rates of specific income groups. Cross-national studies of political transition and democratisation have typically focused on relatively general measures of economic development, such as per capita GDP, total interpersonal inequality (Acemoglu and Robinson 2006; Boix 2003; Dion

and Birchfield 2010), or average measures of basic needs satisfaction.<sup>22</sup> These measures do not provide indications about the size or number of relevant income groups that would be required to analyse the type of non-linear patterns in political reform typically associated with the middle class hypothesis.

In spite of this limitation a small number of studies have tried to link growth in specific income categories to social and political outcomes. Easterly (2001), in his study on the middle class consensus, finds that a higher share of income going to groups between the 20<sup>th</sup> and 80<sup>th</sup> percentiles of income distribution is empirically related to better economic policies, more political stability, as well as higher income and higher growth. Larger middle class income shares are also associated with better educational and health outcomes, better infrastructure, and more democratic governance systems.

Based on the historical distribution of incomes in most low-income countries it is fair to assume that this captures a majority of poor and vulnerable groups in the developing world (Banerjee and Duflo 2008). However, Easterly's study includes low ethno-linguistic fractionalisation in its definition of a middle class consensus and it generalises across a large group of countries at very different stages of development. As a consequence it does not provide a direct test of the effect of lower middle-income growth on development outcomes.

Cobham and Sumner (2013), with a slight shift in focus, concentrate on the ratio of incomes held by elites relative to the poorest groups. They find that countries which reduced income differences under this measure exhibit mean rates of progress which, compared to countries with inverse trends, are three times higher in reducing extreme poverty and hunger, twice as high in reducing the proportion of people lacking access to improved water sources, and a third higher in reducing under-five mortality.

Probably the most detailed evidence about the consequences of lower and middle class growth comes from Loayza *et al.* (2012). They build a new cross-country panel data set of over 670 annual observations across close to 130 countries. The analysis distinguishes between the proportion of individuals in extreme poverty (below US\$2.5 a day in purchasing power parity terms) and the proportion of individuals who have reached middle class status above US\$10 a day.<sup>23</sup> The results suggest that growth in vulnerable groups on incomes less than US\$10 does not bring about major improvements in institutional and policy outcomes,

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<sup>22</sup> Examples include mean caloric consumption (Reenock et al. 2007) or child mortality (Gerring et al. 2012; Ross 2006).

<sup>23</sup> The estimates use the Arellano and Bond (1991) and Arellano and Bover (1995) GMM estimator for panel data that deals with country-specific effects and endogenous explanatory variables with the help of country fixed effects and instrumental variables based on previous observations of the explanatory variables.

when compared to changes in the share of poorer households below a US\$2.5 deprivation threshold.<sup>24</sup> By contrast there are much stronger signs for improvements when growth occurs at higher income levels. Expansions of incomes above US\$10 have a robust positive influence on social policy and governance outcomes that reduces or entirely crowds out estimated effects of GDP obtained in earlier specifications. These changes in social policy also do not imply a move towards a more state-driven economy, as increased upper incomes are associated with reduced tariffs on international trade and a higher degree of financial liberalisation.

It is important to note, however, that it is not possible to conclude from this study that there is a specific ‘middle class dividend’. Because of the difficulty of comparing middle class incomes across emerging and advanced economies, the authors do not use an upper income ceiling. This makes it hard to determine if there is a genuine middle class effect or whether the estimates just pick up positive institutional correlates of growth occurring in higher incomes.

### *5c. Hypothesis 3: Benefits from government policies to the new middle: Social protection policies*

Another shortcoming of the cross-country literature involves the relatively broad spending categories used to assess distributional conflicts. Information on education or health care, which dominates cross-country research on social policy represents relatively broad spending categories that offer little information on which groups actually benefit from government interventions. Even though these services generally tend to benefit lower-income groups more than affluent ones, they can be very regressive as well; for example, if a large share of education and health expenditure is spent on tertiary services or subsidies to private providers. Another question is whether poor and vulnerable groups benefit sufficiently from public education and health care, even when these services are progressively distributed. The fact that even lower-income vulnerable households are increasingly opting for private education suggests that often extreme quality shortfalls in public schools often act as a strong deterrent in educational decision-making. These shortfalls in service quality are obviously not captured by the simple public spending aggregates typically used in the literature. Yet they

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<sup>24</sup> This evidence only emerges indirectly, because vulnerable households emerge as the omitted category.

are obviously important for lower and middle-income groups' future commitment to tax-finances public services (Banerjee and Duflo 2008; Birdsall et al. 2013).

More concrete signs about the extent of cohesion – or lack thereof – between middle classes and vulnerable groups appear when one looks at actual social safety net and protection policies. Political economy literature traditionally regards benefit from social protection as the primary indication of representation of economic interests in government politics (Esping-Andersen 1993; Huber and Stephens 2012; Lindert 2004). This holds regardless of regime type, as authoritarian regimes also appear to use targeted social programmes to ease pressure on other more salient political dimensions (Haggard and Kaufman 2008: 360). At the same time conflicts are particularly likely to arise over these policies, especially if affluent middle classes are decreasingly willing to pay for demands for social protection by growing vulnerable income groups.

In most emerging economies social protection coverage has to be interpreted in the context of often extreme swings in social spending over the last three decades. As other developing nations most of today's fastest growing emerging economies entered the period of rapid income growth in the 1990s with relatively narrow social protection systems. In particular, formerly socialist economies in Eastern Europe and Asia, but also most countries in Latin America and sub-Saharan Africa implemented sweeping market reforms and cuts to social safety nets in the adjustment period of the 1980s and 1990s (Haggard and Kaufman 2008; Huber et al. 2008; Huber and Stephens 2012). This shifted the burden of social assistance for lower-income groups on informal and family networks mechanisms, which clearly do not provide insurance against more systematic macro-economic shocks that affect a large proportion of the poor simultaneously (Cook and Kwon 2007). However, recent years have brought some improvements. Asian economies expanded their social protection interventions in response to rapid growth and the 1997/8 crisis (Cook and Kabeer 2010; Cook and Kwon 2007; Haggard and Kaufman 2008). In Latin America similarly there has been a broader shift towards a 'post-adjustment consensus', based on increased social spending and poverty alleviation programmes such as Conditional Cash Transfers (Birdsall et al. 2011, Díaz-Cayeros and Magaloni 2009; Haggard and Kaufman 2008; Roberts 2012).

The primary problem remains the extremely weak base of the fiscal tools for redistribution available to many governments. A well-known problem is that many emerging nations collect very low levels of progressive taxes (such as income or wealth taxes). This means that even in countries where social programmes are put in place to benefit lower classes, these interventions are financed through more regressive revenues like consumption

taxes. The result is the so-called ‘inverse Robin Hood syndrome’ (Lindert 2004), where the same populations who are intended to benefit from new social programmes also contribute relatively larger shares of their disposable incomes to government revenues than more affluent populations (Lindert et al. 2006). Birdsall et al. (2013) find that vulnerable groups in Latin America on incomes from US\$4–10/day are net payers into the fiscal system once indirect taxes are taken into account. The only area where this group benefits are health and education services, ‘though no more or less than other income groups given its share of the overall population, and ... probably less than proportionately once university education is taken into account’ (p.17).

The skewed nature of social protection design and finance has particularly strong implications for the inclusion of the poor and vulnerable groups because of potentially precarious employment conditions and the fact that populations may be just above the poverty line. The fact that these populations are still largely in self-employed or informal sectors make it less likely they will benefit from established, often subsidised social protection programmes that continue to exist in most emerging economies. This potentially exacerbates inequalities between those who prosper in the new market economy and those who fail to do so. Poor and vulnerable groups would only get access to state social protection if they manage to secure formal sector jobs (Cook and Kabeer 2010; Haggard and Kaufman 2008).

For vulnerable populations this problem is exacerbated by the fact that these groups often fall between the targeting criteria of new social protection programmes put in place to target the poor. Birdsall et al. 2013 find that, compared to poor households vulnerable populations in Latin America benefit relatively little from means-tested conditional cash transfers (CCTs). The only exceptions are Uruguay and Brazil, whose higher living standards mean that vulnerable groups still fall under local targeting criteria. In these countries, as well as in Guatemala, vulnerable populations also receive more benefits from new non-contributory pension systems than more affluent middle classes. Yet, reviews for Latin America and other emerging regions indicate that regressive components of social security spending often continue to outweigh new progressive components (Huber 2009: 652; see also de Ferranti et al. 2004, 268–72; Lindert et al. 2006; Cook and Kabeer 2010).

## **6. CONCLUSIONS AND RESEARCH QUESTIONS ARISING**

### *6a. The emergence of a ‘new middle’*

In conclusion much about the strength of the future social contract between poor and vulnerable populations and more affluent groups appears to depend on structural and institutional features of emerging economies that are harder to change through short-term interventions by policymakers. Birdsall et al. (2013) argue that traditionally high levels of inequality in Latin America make it harder to maintain social contracts in the region. This is because high inequality and large differences may undermine the sense of realistic prospects for upward mobility, both for vulnerable groups and middle classes (see also Lopez-Calva and Torche, 2011). In this setting many countries may revert to unsustainable populist policies that try to address the needs of both vulnerable groups and middle classes. Recent clashes in countries like Thailand and Venezuela suggest that this may lead to increasingly strong backlashes by affluent groups that resist these populist policies.

In light of these concerns we identify areas that we believe merit additional analysis.

*i. Interactions between middle-income growth and other social divides*

Theories of state failure typically emphasise the high degree of ethnic and religious fractionalisation in many parts of the developing world. These divides are likely to interact with the economic transformations described in this paper. In Easterly's (2001) early paper on the subject, large middle classes are only conducive to development when they are accompanied by relatively low levels of ethnic fractionalisation. This is consistent with recent attempts by political scientists and economists to move away from purely 'social-identity' based measures of political divides (e.g. indices of ethnic polarisation) to study their interactions with economic inequalities (Baldwin and Huber 2010, Huber 2013; Stewart et al. 2008).

Anecdotal evidence provides some indication that the type of interactions just described can indeed exacerbate social conflicts. Recent protests in countries like Thailand, Turkey or Ukraine point to new conflict lines between 'modernist' and 'traditionalist' factions within upwardly mobile groups (*New York Times*, 2 June 2013). Protests by urban middle class voters in Thailand and Turkey in particular appear to be as much struggles about national identity and the distribution of power with increasingly vocal and influential – but less liberal – rural populations as they are about democracy. In Ukraine the conflict lines are roughly between the pro-European west and the pro-Russian east (note that all of these

protests are in the first instance directed against democratically elected governments, even though there are usually well-specified grievances about lacking accountability).

This suggests that one area of future research would combine analysis of middle class preferences and behaviours with traditionally ‘salient’ categories such as urban-rural status, religion or ethnicity (see for example Haggard et al. 2013; Cramer and Kaufman 2011). This can tell us more about evolution of new cleavages. It can also lead to a more dynamic study of ethnic fractionalisation that takes into account the interactions between economic and social identities now highlighted in the literature on ethnic conflict (Huber 2013; Baldwin and Huber 2010, Stewart et al. 2008).

*ii. How does middle class growth interact with political regimes?*

A second area of research would be to explore a more dynamic analysis of the interaction between middle class growth and political regime type. The literature has had well-known difficulties in establishing a link between regime type and development performance (Huber and Stephens 2012; Gerring et al. 2012; Lake and Baum 2001). Our review suggests that one can hypothesise that all else equal, elected leaders in functioning democracies are under greater political pressure to address the needs of non-elites and vulnerable voters. These pressures should increase with the emergence of economically independent ‘middle classes’, who have new political demands and hold potentially more progressive views on issues like corruption, government accountability and inequality (for illustration consider recent protests by lower and middle class voters in countries like India, Brazil or Turkey). Analysis could use interaction terms between lower middle-income growth and democracy to see whether reform processes occur more rapidly in democracies than in non-democracies for example.

*iii. Middle class mobility trajectories and political attitudes and behaviours*

A last major gap in the literature is the lack of hard evidence on how individual mobility experiences influence behaviour of lower-income groups. As noted before a weakness of the available data is that endogeneity issues involved in attributing upward (or downward) mobility experiences to changes in political behaviours cannot be resolved with the cross-sectional studies that dominate the evidence base for emerging economies. More rigorous evidence would require tracing over time how attitudes of the same individuals change with transition into new income groups. A relatively low-cost solution would be to include

indicators on preferences and behaviours in panel surveys that are now used to track transitions out of poverty (for example, the RAND Corporation and Indonesia).

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