



Expansion and consolidation in Latin America

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MIDDLE CLASS

Expansion and consolidation in Latin America



Presentation	4
Middle Class survey in Cali	6
Middle Class survey results	12
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Research Approaches of the Middle Class in Latin America	
Ludolfo Paramio The new middle classes in difficult times	24
Sergio Visacovsky Middle class, a multidimensional phenomenon: new research approaches	28
Ezequiel Adamovsky “Middle class”: an out of control category	33
Emmanuelle Barozet Looking ahead: what are the challenges for the middle classes? The case of Chile	36



Growth, Expansion and Consumption of the Middle Class

Steven Pressman	42
The middle class in South America	
Marcos Robles y Marco Stampini	49
Expansion and sustainability of the middle class in Latin America	
Maria Isabel Zafra y Hernán Duarte	54
Dynamics of consumption of the middle class in Cali: an intergenerational approach	
<hr/>	
Acknowledgements	60
Recent publications	61

PRESENTATION



As economic growth has reduced poverty across developing countries, the middle class has grown rapidly in size and spending power. According to different estimations (OECD and World Bank), an increasing proportion of the world's population is neither rich nor poor by national standards. Those who are in the middle of the income distribution, are the large majority that constitutes the middle class.

The consolidation of the middle class is a strong and long term development indicator because its growth is strongly associated with poverty reduction. Fostering this population growth has become the primary interest of policy makers in developing nations since a stable middle class could provide a solid foundation for economic progress by driving consumption and domestic demand.

The middle class growth has motivated several academic and policy discussions such as the social and political role of the middle class and their consumption patterns.

One of the strands of the discussion about the political and social role of the middle class is centered in the political demands that this population segment makes to national and local governments. A major characteristic of the middle income population is their increase in educational attainment. However, a more educated population also implies active political actors that in turn will have higher demands for government performance and accountability. Middle class groups are no longer

satisfied with simply having access to basic public services, they are also concerned with their quality. Providing the quality service that the middle class demand is far more complicated than simply providing access to them and can be a source of conflicts and political upheaval. Moreover, as the population expectations and needs changes as their income increases, governments have to deal with the demands of those who are no longer poor such as, transportation, housing, safety and green space. With a middle class expansion, democracies strength, taxes rise, and political demands increase.

But the middle class not only demand better government performance, they also drive economic growth given their consumption and aspirations. The middle class consumer is willing to pay a little extra for quality and better goods and services. The emerging middle class is viewed as an attractive consumer market, depicting its members as highly ambitious and aspirational in their spending patterns. Aspirations, stunted by low income status are now possible including owning a home and a car, college education and regular family vacations. Likewise, conspicuous consumption plays a key role in explaining consumption patterns amongst the middle class population. This robust expenditure has been boosted by the recent growth in credit extension.

The political role of the middle class and their consumption not only motivates academic research

but also promotes the discussion in policy making. Developing a stable middle class that promotes economic growth and fosters political stability requires governments to formulate and implement middle class-oriented policies that take into account their demands and the economic vulnerability of those who are recently lifted out of poverty. In turn, this involves understanding and analyzing the characteristics of the middle class, the factors contributing to its growth, stagnation, and vulnerability, and the economic and political implications of its rise.

Given the relevance of the topic in Latin America, our 18th edition is dedicated to the growing middle class in the region. In this edition, we aim at presenting selected studies of middle class in Latin America. Our motivation is to promote a discussion about the role of the middle class in the economic and social transformation that the region has experienced in the last two decades. In this edition, several scholars that have conducted theoretical or empirical research on the middle class growth in the region will present a summary of their work. We aim at presenting this general discussion in a friendly and non-technical manner to reach a broad public beyond the academia. Authors invited to this edition will discuss issues related to the political dimension of the middle class, expansion and economic vulnerability in the region.

At POLIS we also seek to contribute to the academic discussion of this important topic. As our readers will find, most of the discussion of the middle class is conducted at national or regional level. Given data limitations little is known about the implications of middle class growth in cities and the pressures that this population segment creates in urban policies.

In order to add to the discussion of the middle class at a city level, POLIS conducted a population survey in 2016 aimed at understanding consumption patterns and government attitudes amongst the middle class population to compare them with the lower income segments. Our population survey

collected over 1,000 observations and is our main input to discuss how the permanent growth of the middle class is shaping urban policies priorities and city transformations. So far, we only have one year of analysis but we aim at generating a bi-year system to track changes over time.

This edition is divided into three sections.

First, we present our initial data collection of the middle class population survey conducted in 2016. In this section, we discuss the methodology, sample size, and general results. The second section is aimed at introducing theoretical discussions about the study of the middle class in Latin America. Ludolfo Paramio, Sergio Visacosky, Ezequiel Adamovsky and Emmanuelle Barozet present different cases of Latin American countries and discuss the policy and political implications of the middle class growth on their case studies. This edition is closed with Steven Pressman, Marcos Robles and Marco Stampini who discuss an empirical approach of the middle class. Finally, Maria Isabel Zafra and Hernán Duarte, use the data collected in POLIS' survey to present consumption patterns using an intergenerational approach.

We hope that this policy brief promotes an informed discussion about the policy implications of the permanent expansion of the middle class that Latin America is experiencing.

Lina Martínez
Polis Director



MIDDLE

CLASS SURVEY IN CALI



Middle Class in Latin America

Policy Brief



- POLIS
- Santiago de Cali
- Middle Class survey in Cali
- Methodology



POLIS is an observatory of public policy of Universidad Icesi. We are located in Cali, the third largest city in Colombia. At POLIS we are committed to conducting empirical research on policy relevant topics using the rigorosity of the academic research but responding to the needs of governments. We aim at providing relevant information to promote an evidence based policy making culture in the city. We produce research on urban policies, crime, subjective wellbeing, health and informal economy.

Our main unit of analysis is the city of Cali but we also study policy issues in the Pacific region.

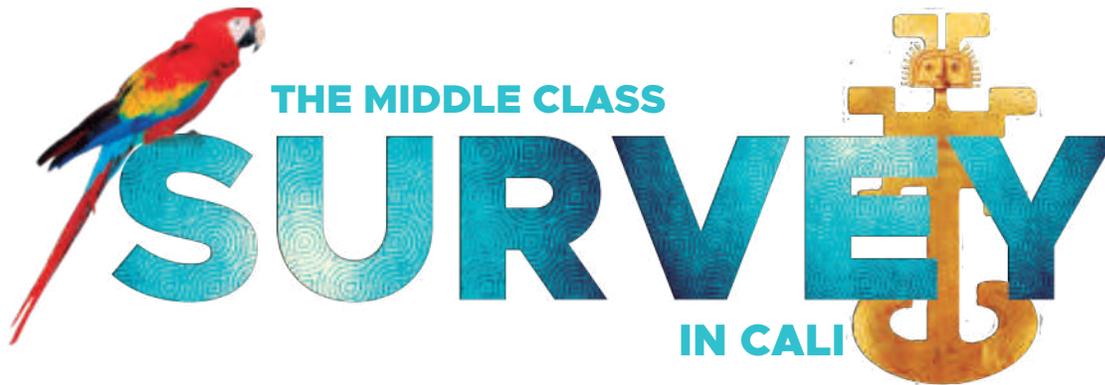




Cali is the third largest city in Colombia, with a population of 2.4 million. The city is one of the main industrial centers of the country and the major economic hub in the Pacific region.

Cali is a standing case study from a public policy perspective. Alike many cities in Latin America, the city is experiencing demographic and economic growth and present a high prevalence of informal economy that is the resort of the poor. The middle class is expanding and the government is in a process of improving government performance, accountability and offering better public services to its population. The city is also unique in the region on other fronts. Cali has a long crime history, is a major host for displaced population of the internal conflict and also has a distinctive confluence of culture from the Pacific region.

At POLIS we are committed to understanding this city and their people' perceptions about government performance. From the academia, we aim at providing relevant information for a better policy making.



THE MIDDLE CLASS SURVEY IN CALI

The middle class growth has been largely studied from national and regional perspectives. Little is known about middle class growth at a city level and the policy implication of middle class expansion in urban policies. Aiming at providing information about this situation, in 2016, POLIS conducted a population survey in the City of Cali. In this survey, the consumption patterns and other socioeconomic aspects of the low income and middle income population are compared.

2016 was the first year of data collection, but this survey is expected to be collected every two years in the city.

The middle class survey was designed in order to collect information about the following topics:

- 1.**  Consumption and aspirations
- 2.**  Access to banking services
- 3.**  Attitudes towards government programs
- 4.**  Evaluation of government performance



METHODOLOGY



Target group:
Men and women
18 years and older.
City residents



Geographic coverage:
The city of Cali



Sample size:
1206 surveys
per year



Data collection:
Direct Surveys
(face-to-face) in
central points



Margin of error:
2.8% with a confidence
level of 95%



**Number of
questions per
survey: 51**



Survey zones:

Plazoleta de San Francisco, CAM, Ingenio Park, Shopping centers, Bus stations, Downtown, Siloé, Ciudad Jardín, Caney, Meléndez, El Poblado, Salomia and others.



Sampling system:

Stratified sampling, multistage. First stage, selection of 49 points around the city. Second stage, quota definition according to socio-economic strata, gender and race/ ethnicity. Third stage, simple random selection of target population.

In this survey we classify observations using household stratification. In Colombia, households are classified in a strata scale from one to six. These strata reflect physical conditions and access to public services of households. Under this definition, households classified as one and two, are the poorest; three and four represent the middle class; five and six are the rich. In the survey we ask about household stratification and neighborhood. Using this information, the “low” and “middle” segments were constructed. We are aware of the limitations of this measure, but it provides a proxy for stratification that is widely used in the country and has a strong correlation with income.



MIDDLE CLASS SURVEY



RESULTS





Sections

- Sociodemographic information
 - Health
- Employment and income
 - Transportation
 - Consumption
- Life satisfaction
- City Satisfaction

Sociodemographic information

● Low SES*

● Middle SES



Race-Ethnicity:
Mestizo
40% / 46%



Average children
2 / 1



Single
44% / 49%



Age at first child
22 / 24



College Education
7% / 27%



Own a household
(no mortgage)
30% / 36%



Average years
of education
10 / 12



Parent's average
years of education
7 / 9



*SES: Socioeconomic Status. Low (strata 1 - 2), Middle (strata 3 - 4).

Health

● Low SES*

● Middle SES



Good health status
(autodeclared)

41% / 46%



Declared to perform
a physical activity

51% / 49%



Are overweight
or obese

46% / 45%



Average days of
poor physical or
mental health

9 / 8



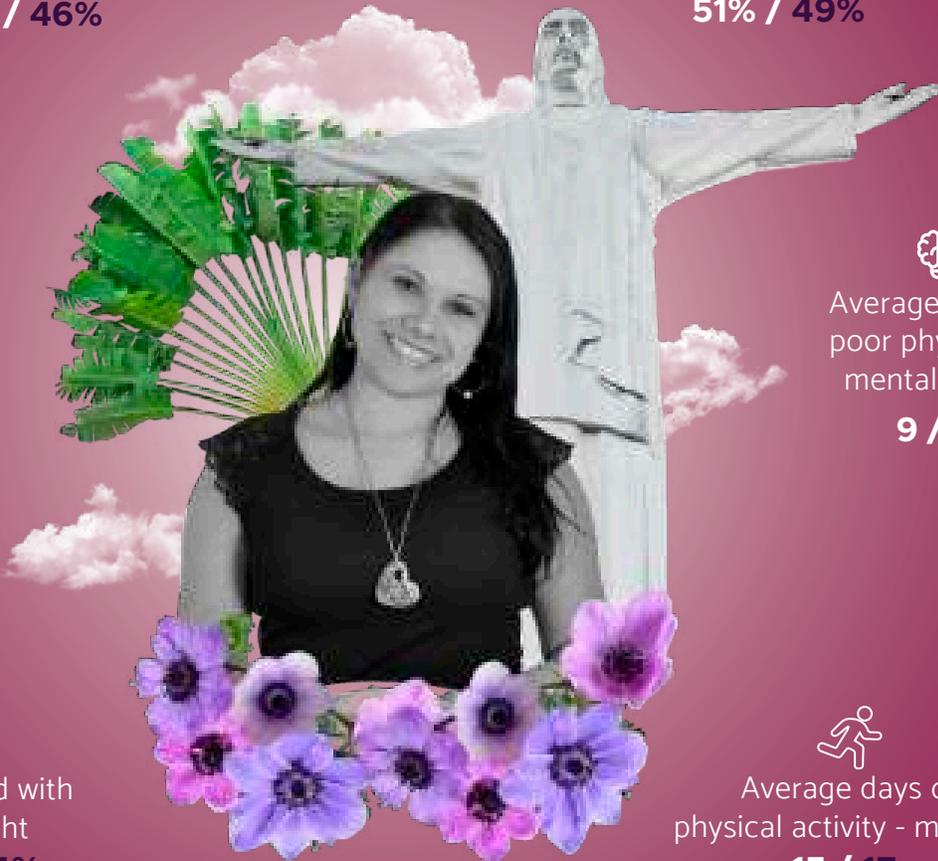
Feel satisfied with
their weight

56% / 44%



Average days of
physical activity - monthly

15 / 17



*SES: Socioeconomic Status. Low (strata 1 - 2), Middle (strata 3 - 4).

Employment and Income

● Low SES*

● Middle SES



Work as independent
34% / 38%



Claim to have savings to cover basic expenses for at least three months
29% / 42%



Do not contribute to pension or health programs
67% / 46%



Consider themselves economically poor
25% / 13%



Average income (USD)**
287.44 / 395.31



Declare that they have improved –financially speaking– compared with their parents at the same age
64% / 67%



Consider they are economically better than last year
60% / 65%



Believe they will be economically better next year
88% / 90%

*SES: Socioeconomic Status. Low (strata 1 - 2), Middle (strata 3 - 4).

** Exchange rate: 2900 COP = 1 US dollar

Transportation

● Low SES*

● Middle SES



Own a motorcycle

87% / 62%



Own a car

18% / 45%



Uses public transportation

48% / 47%



Average commuting time daily

52 Min / 52 Min



*SES: Socioeconomic Status. Low (strata 1 - 2), Middle (strata 3 - 4).

Consumption

● Low SES*

● Middle SES



Have savings account

44% / 56%



Prefer to save for the future

59% / 51%



Have credit card

41% / 59%



Have difficulty paying debts

65% / 35%



Own a durable assets (vehicle or appliance)

69% / 78%



*SES: Socioeconomic Status. Low (strata 1 - 2), Middle (strata 3 - 4).



Voted in the last elections

49% / 58%



Support policies of free education and health services to low income population

98% / 98%



Consider that helping others is the most important factor in life

34% / 38%



Would not change the neighborhood in which they live

50% / 61%



Have gone on vacation in the last year

24% / 36%



Spent money dinning over the last 30 days

53% / 72%



Do not have any type of insurance

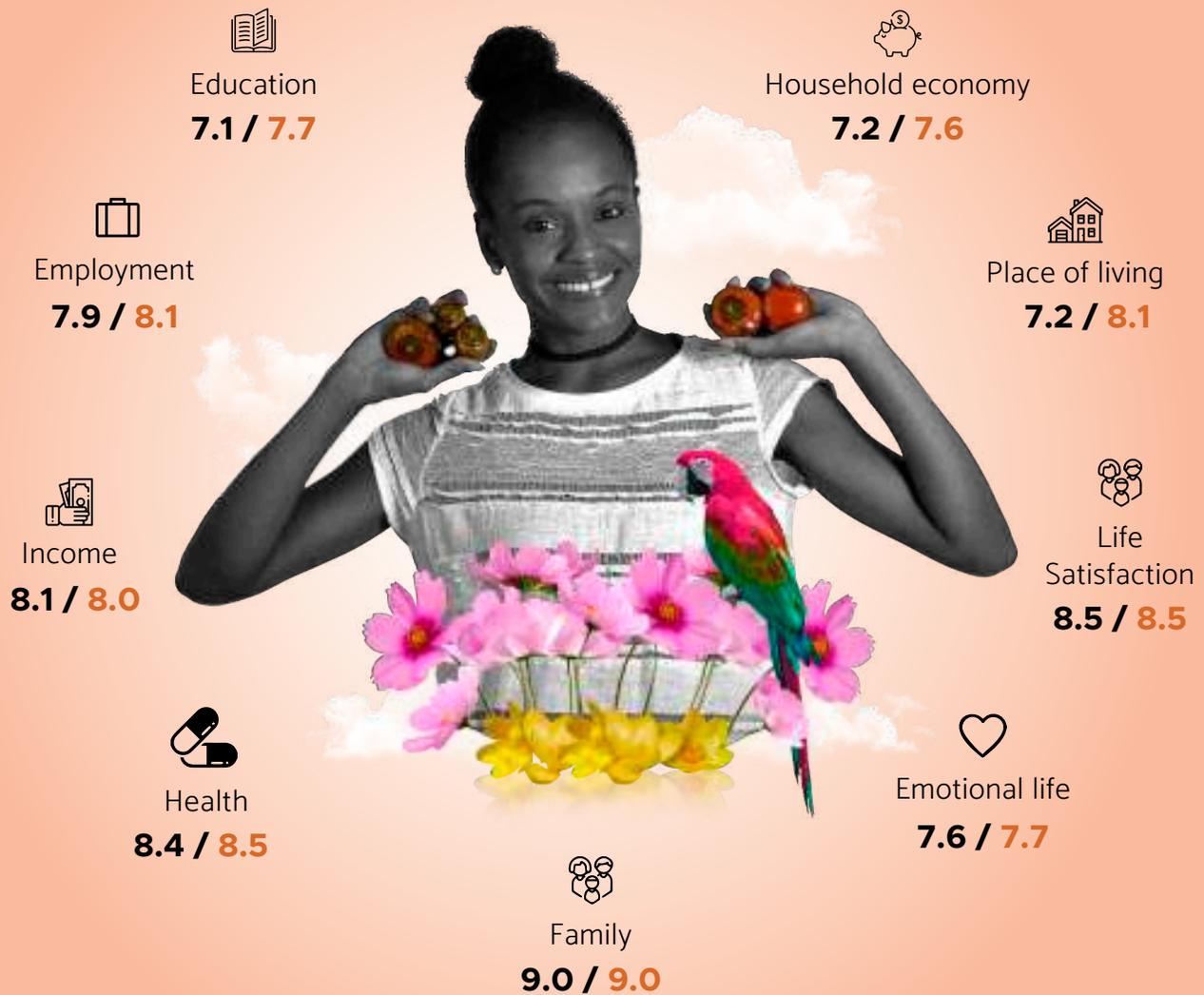
67% / 60%



Personal Satisfactionⁱ

● Low SES*

● Middle SES



i. Scale 1 to 10. 1 the lowest and 10 the highest level of life satisfaction.

*SES: Socioeconomic Status. Low (strata 1 - 2), Middle (strata 3 - 4).

City Satisfactionⁱ

● Low SES*

● Middle SES



Security
4.3 / 4.3



Health services
3.7 / 3.7



Employment generation
4.2 / 4.3



Education
6.0 / 5.8



Neighborhood
5.2 / 6.1



Public services
5.0 / 5.2



Parks and public spaces
5.8 / 5.9



Traffic
4.2 / 4.2

i. Scale 1 to 10. 1 the lowest and 10 the highest level of life satisfaction.

*SES: Socioeconomic Status. Low (strata 1 - 2), Middle (strata 3 - 4).



**RESEARCH APPROACHES
OF THE MIDDLE CLASS IN**

LA IN AMERICA





Articles

Ludolfo Paramio

The new middle classes in difficult times

Sergio Visacovsky

Middle class, a multidimensional phenomenon: new research approaches

Ezequiel Adamovsky

“Middle class”: an out of control category

Emmanuelle Barozet

Looking ahead: what are the challenges for the middle classes? The case of Chile

The new middle classes in difficult times*

Pág 24 - 27



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During the past decade, Latin America experienced a remarkable economic growth while reached a certain “post-neoliberal consensus”, a reaction of the public opinion and political elites against the “Washington Consensus” of the previous decade. As a consequence of these changes, the middle classes, considered almost in extinction since the debt crisis, recovered relevance, in particular they become the focus of attention for scholars in the region, as well as for the economists and sociologists of multilateral organizations: ECLAC, the World Bank, the IMF and the OECD.

* The english translation of this article was done by POLIS, not by the author.

ⁱThis work is a product of the project Emerging middle classes and new political demands in Latin America, CSO2012-35852, of State Plan for Scientific Research, Technology and Innovation (MICINN) and partly reproduces the findings of The new Latin American middle classes: rise and uncertainty, Ludolfo Paramio and Cecilia Güemes (eds.), Madrid: Center for Political and Constitutional Studies, 2017. Professor of the Institute of History, CSIC (Madrid) E-mail: ludolfo.paramio@csic.es - ludolfo.paramio@cchs.csic.es

Beyond the causes and the quantitative estimation of this phenomenon, it is necessary to reflect about its socio-political consequences. Among young people the self-perception of belonging to the middle and upper middle class is far superior to what one would expect from income estimates. This is particularly striking in the case of Chile, where the self-perceptions of the general population about their belonging to the middle class, according to the Latinobarómetro, are well below the dimensions attributed to the middle classes according to the World Bank, OECD and ECLAC, while they are very high among young people aged 15 to 25. The symmetric case is Bolivia, where self-perception is far superior to economic estimates, but in this case there is no contradiction between young people and the whole population.

Self-perception, is linked to the problem of expectations. Young people are perhaps especially sensitive to the spread of new forms of consumption, a cheap consumption boosted by imports and by the appearance of new forms of payment. Also a consumption centered in products associated with the status of middle class, from the clothes of certain brand –often copied and / or smuggled– to new electronics: mobile music players, smartphones or tablets. But this consumption, while reinforcing the feeling of belonging to the middle class, creates the immediate problem of its congruence with other dimensions that would characterize the non-vulnerable middle class: not only the occupation and the level of income but also the educational level, and above all the possibility of securing this level to their children.

The middle classes are often considered as a set of strata having in common their aspirational character. Meaning that, regardless of their income levels, those belonging to the middle strata aspire to improve their own and their children status. In the new emerging middle classes this feature is accentuated by its own biographical experience. There is a generation that has lived a trajectory of

social ascent, while the intergenerational mobility has not improved substantially. It is normal for this emerging generation to consolidate and extend through their children their own promotion experience, both facing the risk of a relapse into poverty and a possible stagnation, possibilities that clearly threaten the vulnerable middle classes.

This is the problem that the regional UNDP 2010^[1] report addressed. The aim was to analyze which public policies can increase intergenerational mobility, and also consolidate the improvements experienced by the emerging generation of the last decade. It seems obvious that several problems are considered.



POPULATION

The first is to promote economic growth and job generation. But this problem can only be addressed in part from governments, as it largely depends on the behavior of export markets. The current crisis in the Eurozone, or the growth stagnation in China, are challenges that governments in the region have a limited capacity to respond.

The second problem is the qualitative rise of primary education levels and greater access to secondary and higher education. To a large extent, this is a field in which public policies could be decisive, and could be the immediate goal once access to primary education has almost universalized. But in several countries the first obstacle to overcome is the low valuation of public education, which can lead the emerging middle classes preferring private education, even if this means an important economic effort, rather than providing their children public education, which they perceive of poor quality. On average, in Latin America the middle and lower middle classes are very or somewhat satisfied with public education by 54% and 51% respectively; in Brazil, satisfaction levels are 24% and 18%, in Chile, 18% and 21%, while in Costa Rica the levels are 73% and 65%, respectively.

A third problem is the shift from targeted social policies to universal policies. This is due to two rationales: first, those who have escaped poverty can no longer receive transfers to poor households, but without some support they may be unable to maintain and consolidate their new status. And secondly, only with the support of the middle classes can be considered the creation of a social coalition in favor of redistributive policies.

This leads to the crucial problem for the consolidation and increase of the new middle classes: the fiscal pact. More redistributive fiscal policies are needed to finance spending on improving education and universal social policies that can effectively and durably offset inequality^[2]. The OECD has diagnosed with great precision the main obstacle:

Latin American middle strata express clear support for democracy, but they are critical to its functioning, largely because of the low quality of public services provided by the government. The net effect of taxes and benefits on families in the middle strata is not high. In addition, these families receive mainly in-kind services, such as education and health care. If these services lack quality, the middle strata will be more likely to consider themselves losers in tax matters and less likely to contribute to the financing of the public sector. Consequently, in order to reinforce the social contract - particularly with the middle strata -, States should improve the quality of public services and carry out tax reforms based on greater transparency and more effective tax administration^[3].

This may suggest that the political key to progress is to include vulnerable middle classes in gradual reforms, that do not promote strong opposition of the middle-middle and upper classes and open the door to a national project of progress and modernization that is acceptable to the whole population. Evidently, the key is to achieve a more transparent and efficient tax administration while increasing the quality of public services.

After an experience of decadence and 'new poverty' in the 1980s and 1990s, the decade of 2000 has been known by the growth of new middle classes emerging from poverty. Marked by the previous context of social crisis, and by values in many cases far removed from those of the traditional or modern middle class - linked to the economic opening -, its quantitative expansion has nevertheless been a reason for justified optimism while the international economic context has favored its social ascent and the development of its expectations.

But the boom time of primary exports seems to have come to an end, and have not created the conditions for growth model change: far from it, the tendency has been to a re-primarization of the

economy. In this new context, the new emerging middle classes are condemned not only to the limits they encounter to the realization of their aspirations for unsatisfactory social services, but also the threats in terms of employment and falling incomes that imply the stagnation and recession of the Latin American economies.

Middle classes in the region, especially the vulnerable, are facing a new fall, on the roller coaster they have been experiencing at least since the 1970s. The most obvious political consequence is that the parties and governments of the region face the challenge not only of making possible their continuity, but to assume their demands for the future. The risk of returning to poverty and a new growth of inequality would have a high cost for all political actors.

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Middle class, a multidimensional phenomenon: new research approaches

Pág 28 - 32



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A vast internal heterogeneity characterizes the classic category of “middle class”. Under a single label coexist individuals and families with very different income levels, lifestyles and political ideas. Within the “middle class”, salaried and non-salaried workers, people with skills acquired in the formal education system and other self-taught, public and private sector workers are brought together. Professionals, merchants, accountants, office workers, managers and teachers are unified in only one denomination. This empirical diversity may seem a hindrance; but as Raymond Aron^[1] suggested, many current historiographical and ethnographic investigations insist that this should be the starting point. Large-scale regional and even global economic reports use a universal “middle class” notion. Certainly, the sectors usually characterized as “middle class” cannot be isolated

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from capitalist economic processes. However, knowledge of the structural dimensions of global capitalism is not enough to understand the characteristics of social segments defined as “middle class”. Several ethnographic and historiographic studies have shown how necessary it is to understand the middle classes by emphasizing their national specificities^[2]. In the past, many Latin American or Asia studies analyzed their data based on research on the United States or Western Europe, which were considered paradigmatic and universal^[3]. Thus, the peculiar characteristics of the emerging middle class in Nepal at the beginning of the current century can only be understood if these can be placed as part of a conflict between a modernizing cultural project and religious traditions^[4]. In the same way, the growth of the middle class in India cannot be separated from the politics of caste, religion, and gender, which shaped this population^[5]. In Argentina, the idea of the middle class acquired a strong ethnic and racial meaning^[6,7]; precisely, the stories of origin of the middle class have these characteristics^[8].

“Middle class” is often conceived as a reality taken for granted, which is apprehended by the direct correlation between socioeconomic indicators and real groups. But new research approaches are interested in the concrete ways in which middle class is conceived, defined and perceived by specific social groups. A variety of aspects are included: ethnic and racial invocations, conceptions about the nation and collective identity, morality and religion, migratory origins, diverse uses of language and many more. One of the most significant changes in middle class research has been the emphasis on shaping processes. The middle class has been studied as non-teleological, never finished processes. David Parker’s study of the first half of the twentieth century has been fundamental. He analyzed how employees developed a distinctive identity demanding preferential treatment^[9]. In a similar vein, Adamovsky^[6] studied how the Argentine middle class identity emerged as a public discourse as an opposition to Peronism and popular sectors in the mid-twentieth century.

However, these new approaches to research have had little impact on the main disciplines that nurture public administration, such as economics, quantitative sociology, political science or demography. For these disciplines, almost all problems concerning middle class are measurement problems. Consider the following example. According to a 2012 World Bank report, the middle class increased by 50% between 2003-2009, from 103 million people to 152 million. This increase of the middle class reflected the economic growth of the region, a higher per capita income level and an expansion of employment. Who were the middle class? People earning between US \$ 10 and US \$ 50 per day and per capita. In countries like Argentina (which had coped with a very serious crisis in the early twenty-first century), the growth of this segment revealed both the success of economic policies as an extraordinary and rapid recovery. In this case, “middle class” is a category that allows quantitative estimation of the effects of economic policies. If we consider a given period, are people richer or poorer? How many people became wealthy or impoverished? If people improved their income, did the consumption of goods and services increase? In this growth of consumption, what kind of goods and services increased? There is no doubt that this type of information is very relevant; crucial, I would say. This type of organization of socioeconomic information allows the definition of public policies, such as social assistance, health, housing loans, public education or fiscal policy. From the point of view of the functioning of the state, it is a strategic knowledge.

These policies are based on a segmentation of the population in socioeconomic strata: a classification, in the end. These classifications are often made by experts (such as economists and sociologists) and used on behalf of state authority. Like any classification, it has certain arbitrariness. A classificatory category that should include people who are not poor or rich will surely have a significant degree of

arbitrariness. From this perspective, the “middle class” as a category has to solve a double difficulty: on the one hand, its internal diversity, since its roof approaches the upper class while its floor comes close to the lower class; on the other hand, the boundaries with the upper and the lower class. As we know, the “middle class” includes people with very diverse incomes. And some are closer to the “real rich” and others to the “real poor.” The borders can be very diffuse. The specialists are aware of this trouble and, therefore, they discuss the most appropriate criteria for delimiting the segments. This does not seem problematic, unless we confuse these classifications of state experts and officials with the concrete ways in which people classify themselves and others in social life. They do not express the real behaviors, lifestyles, identities, thoughts, ideas or beliefs of people classified as “middle class”. Nevertheless, this does not mean that these classifications do not account for some aspect of reality. Obviously, a certain income level conditions access to certain goods and services. But this relationship is neither mechanical nor automatic. Numerous studies have shown that consumption practices include both decisions based on rational calculations related to available resources and moral or aesthetic aspects. So, the correlation between a population segment and a given type of consumption needs a question: why do people consume certain goods and services? Empirical studies show that acts of consumption are not independent of moral judgments^[10]. If goods and services have different moral qualities (variables according to sectors and contexts), the possession (or not) of these goods and services qualifies their owners^[11]. Similarly, there is no necessary association between the middle class and certain political ideas. People with similar income levels (and even lifestyles) can be expressed in very different political ways. It is the empirical research from a historical and contextual perspective that must study how some political ideas were accepted by certain sectors.

Some scholars assert that the category should be abandoned. If we take into account the inaccuracies discussed above, this may seem reasonable. But things are not so simple, because “middle class” is not just an expert category: it is also and at the same time a social category. The act of classifying is basically human and social. Experts may argue that their taxonomies are better, but they cannot disqualify or ignore everyday classification acts. As I pointed out, we consistently classify people, objects, and places. These classifications are based on cognitive schemes that are socially produced and reproduced, effective to distinguish goods and services, areas of a city to live, walk or consume, clothing, brands, etc. Clearly the access to goods and services is the product of an uneven social structure; but these classification systems organize the experiences regarding levels and lifestyles, possessions or consumptions, while making possible the moral evaluation of such experiences^[12]. The classification is not neutral: it seeks to classify people, goods and places in moral terms, distinguishing the appropriate and inappropriate, the right and wrong, the admissible and inadmissible^[13]. People who define themselves as part of the “middle class” draw boundaries that equate or differentiate them from others. These are hierarchical classifications: some are above and others below. Consider this simple example. When a family seeks a home, it must take into account its objective economic possibilities. These possibilities will allow you to buy, rent or will preclude any real estate transaction. The family can aspire to live in a specific area (because they like it, consider it appropriate, etc.). Consequently, they will live where they can. The area where the family will live has a social image: it is morally qualified. The objective economic possibilities conditions of the family: the area in which their home is located classifies it economically and morally, which confines it to live within certain social and symbolic boundaries^[14,15]. Now, these limits are permanent disputed and redefined. Individuals and families can appeal to different strategic actions to be classified into morally better categories. This activity needs the

approval of other individuals to be successful. Through different modes people seek to be classified and, simultaneously, to classify others: the display of a certain cell phone or clothing of a prestigious brand; the knowledge of certain prestigious places; or the walk in special areas of a city (bars, cafes, restaurants, shops, parks, shopping centers). Of course, as the qualities of the goods are not universal, approval can only succeed to particular audiences. An important consequence of the understanding of this process is that the concepts of social mobility must be reconsidered. In times of crisis, social boundaries become especially labile. But under these circumstances the social groups that perceive themselves as superiors carry out diverse strategies to defend the limits of classification. Individuals and families who experience social decline are able to invest time and money to defend their lifestyles. O'Dougherty^[16] showed how in São Paulo (Brazil) during post-crisis (early 1990s), the middle class appealed to consumption and private education to distinguish themselves from impoverished sectors. For his part, Visacovsky^[17] revealed the tactics carried out various members of the middle class during the first years after the 2001 crisis, such as seeking public schools in areas considered "acceptable".

As we have seen, it is imperative to abandon stereotyped visions of the middle class. The middle class is both a heterogeneous population and a polysemic category, which vary historically and socially. Historical and ethnographic research has shown that the "middle class" is not necessarily associated with certain consumption, lifestyles, values or political ideas. The middle class does not have essential, immutable and universal characteristics. On the contrary, these characteristics are contingent and we must discover them through empirical research. We must think about how social groups become "middle class" in a given context; hence, the new approaches emphasize the study of the processes of conformation of the middle classes as a complex interaction of objective and symbolic forces. Possibly these studies may help to imagine

more careful and targeted public policies, from a less biased perspective, which should be more aware of the complexities and peculiarities of these populations.

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“Middle class”: an out of control category*

Pág 33 - 35



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“Class” is a category as important as misused. Indispensable to understand reality, however, it often becomes an excuse for ideological exercises or as a channel of rude stereotypes. We are accustomed to imagine that the classes are three (high, middle and low), something that is so obvious that barely deserves reflection. But that is not the best approach to reflect about the distinctions between people. A large sociological study recently conducted in Great Britain found that the old tripartite class scheme no longer corresponds to current class classification. The study argues that today society is divided into seven classes^[1]. If I mention this work, it is not because I believe it is right, but to emphasize that the way in which class distinctions are presented is not obvious or transparent, not even for social scientists.

* The english translation of this article was done by POLIS, not by the author.

i. It is important to note that the translation of the original document into English was carried out by the Observatorio de Políticas Públicas of Universidad Icesi. Author of Argentine middle class history, apogee and decadence of an illusion 1919-2003 (Planeta, 2009). E-mail: e.adamovsky@gmail.com

Middle class for everyone

Of all class categories, “middle class” is possibly the category that is more loosely used. For example, for some years international organizations and liberal think tanks have been making spectacular announcements about the growth of the middle class at the global level. Frequently we hear news of massive rates of poverty reduction in Asia or the explosive rise of the middle class in Brazil. The World Bank affirmed in 2013 that, only in the previous decade, Latin America doubled the size of its middle class^[2], a fact that the mass media repeated profusely. But all this is nothing more than a fantasy. Today’s hegemonic economic thinking has been promoting a subtle change in the way we conceive poverty and class differences. We used to think of both as a relationship: no one is “poor” in himself, but in relation to another who is rich. Nobody is low class, but in contrast to the high. But now, the ads about middle-class growth are trying to persuade us that poverty and “social ascent” is simply a problem of personal resources, of income levels, unrelated to basic inequalities in social structure. To come out of poverty, from this point of view, is by getting those who earn \$1.25 a day to a income level of \$1.50 daily. Or, as the aforementioned World Bank report proposed, promotion to the “middle class” would occur when the \$10 per capita income is exceeded (a figure that in Argentina, for example, outnumbers some of the lowest paid manual workers). Thus established the problem, we are invited to celebrate the course of the world economy, since, indeed, many people see their income rise above those values arbitrarily fixed. The measurement of this so-called “middle class growth” would be the irrefutable proof of the success of the policies of economic openness of the era of globalization. That optimism, however, hides a more somber reality. In most of the more developed countries, income inequality has been growing steadily for decades. In China, growth has come from an explosive increase in inequality. It may be that, in absolute terms, Chinese or British workers earn more than before. But that does not mean “social ascent” if, at the

same time, the richest of both countries pocketed incomes that increase the differences between rich and poor. In relative terms, the poor and the middle sectors are descending on the social scale.

In this sense, Latin America has been the exception. Although some studies question this assertion, it is possible that, at least until some time ago, against the world panorama, Latin America has reduced its levels of inequality (which in any case remain enormous). But no data validate remotely the idea of a “doubling” of the middle class. For example, in Argentina, even academics who sympathized with the Kirchnerist government showed that, measured by variations in the occupational categories - an imperfect but much better index than the income level - between 2003 and 2011 the proportion of the urban population considered middle class went from 43% to just 46.4%^[3].

Classify/Value

The language of social classes is often used to make moral judgments. Relating a political force and situating oneself and others in a specific social class is often a way of presenting an ethical valuation. In other words, that implies that social classes are often invoked to discredit what we do not like or to enhance what we do like. For many people, “middle class” has an essentially positive connotation. It refers to the “golden mean”, to moderation, to rationality; also to education and honest work, to the social ascent, to the orderly family. By contrast, the lower classes appear to them as a terrain of irrationality, excesses, immorality, vagrancy, inability, in short, barbarism. There is no empirical evidence that all these attributes are distributed in that way among social classes, but many people in any case see this as such, which adds all kinds of distortions in the way we perceive society. For example, during the 2001 rebellion in Argentina the Clarin newspaper described the first cacerolazo, in December 19th, as an event carried out by the “middle class”, but emphatically denied that the middle

class had been the protagonist of the events of the following day, which ended in the fall of De la Rúa^[4,5]. No real data indicates that there was such a social cut or in the mobilization of 19th (that time also came to the street working class people) or the 20th (which from the point of view of social origin, seems to have been rather a continuity of the previous night). Affirming the presence of the “middle class” in one and denying it in the other was the diary’s way of delimiting the type of “acceptable” manifestation of the reprehensible. In later years the middle class was invoked (or its media synonym, “the people”) whenever it was tried to value positively some event. The middle class would thus have been the protagonist of the claim in favor of the “field” in 2008 as well as of the later antikirchneristas manifestations. From the first, it was suggested that was a “October 17 of the middle class” - referring to the mythical mobilization of workers in 1945 that gave rise to Peronism - a fantasy that would evaporate with the Kirchner victory in the elections Of 2011^[6]. Needless to say, the mobilizations of another sign always have, from this perspective, other protagonists: “piqueteros”, “activists”, workers who are “taken” by clientelistic leaders, poor who go for “choripán and coca-cola “Or simply” the blacks”.

This view of reality generates specific blindness and stereotypes. When politicians (and the media) appeal to the vote of the middle sectors as guarantors of virtue, they put at stake evident prejudices. The lower classes appear as passive, captive, irrational, incapable of rescuing themselves. Appeals are not addressed to them as rational voters. And on the other hand, the heterogeneity of the middle sectors are lost of sight, always imagining them as a unified political subject that, in truth, rarely composes.

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Looking ahead: what are the challenges for the middle classes? The case of Chile

Pág 36 - 39



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In these troubled times, when the internet, academia, and public policymakers debate the future of our democracies, there is a particular concern about the role of the middle classes in the fragile political edifice we have built in the last half century, between the increase of inequalities, political disaffection, and the new challenges of participation and integration that the XXI century brings us.

In Latin America, the improvement of living conditions in recent decades and the fact that large numbers of people are no longer poor, have led international institutions to celebrate the development of new middle classes, which would stabilize our weak democratic regimes, as well as bring in an element of political and social progress and stability^[1]. The smaller development of these groups in comparison with large poor

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sectors of the population would have been the source of such ills as populism and authoritarianism in the twentieth century, according to these rather quick interpretations.

Although several countries in the region have experienced this improvement, there is still a long way to escape the medium-income trap for countries that have been relatively successful in the turbulent waters of the international economy^[2]. Others don't even catch a glimpse of that horizon, while there are still multiple challenges for the middle classes in the continent and their role in politics. We will take here the case of Chile as an example of this reflection, since it has been frequently used as a reference in the continent due to its level of stability and economic bonanza. However, thirty years of unequal economic growth have led to a crisis of representation and doubts about how to move to the next phase of democracy and economic development in a country where new social aspirations seem to overflow the possibility of political reforms^[3].

Beyond the fact that in social imaginaries there is an idealized conception of the middle class (economic minimum assured, access to the university for children, property of a house and a car, in general terms no major upheavals), this is composed by various groups difficult to define. They are neither poor nor rich, which defines a social sector that would be too broad as to say something precise. Its members are often defined as sectors that are close to the mean income, but that varies by country, making it difficult to compare groups between different countries, even more between continents. In general they are heterogeneous groups, in which from the occupational point of view we find professionals and technicians, as well as skilled workers, rather salaried employees, except for a group of self-employed and employers with few employees.

Although they differ from popular sectors because of their access to a higher level of

education, whether complete secondary education, technical education or university diploma, they do not have a patrimony that allows them to move to higher sectors or acquire one during the course of their life, with exceptions. One of the main problems for these groups is indeed securing the channel of upward social mobility through heritage, the headache of many middle-class families, in addition to financing the education of their children. These issues are generally of greater relevance to these groups than debates about public goods or solidarity with less fortunate social groups. In the case of Chile, where there is a more important middle class than in other countries as a result of three decades of economic growth, this group today represents around 30% of the population. So it is not a majority, which is usually the case in the region, where popular sectors are still the heaviest part of the social pyramid. There is, however, no unity within this group.

Everyone would like to have a magic ball, particularly those aspiring to power or those who want to perpetuate themselves in power, to know what these diverse groups expect, want and support. But their levels of income, education, consumption, their social origins and their work spaces, generate very different expectations, particularly if the economy is in a growth phase or rather a deceleration or even crisis contraction. They are, above all, pragmatic groups, which can change their electoral orientations according to the moment, in a context of de-ideologization of politics.

First, middle-class families must face the instability of their situation in the medium term, with the permanent fear of regressing and losing the little status gained in the last decades or in comparison with their parents^[4]. The economic situation and their place in the labor market are then essential for these groups who depend on their income from work for their subsistence.

Secondly, the promise that they - themselves or their children - would ultimately enter higher education and thus access a higher and more stable position in the middle class has generated an obsession with obtaining diplomas. In a context of the educational market explosion, this leads families to complex decisions, particularly in terms of financial burden and debt capacity^[5]. The devaluation of university degrees is one of the greatest challenges that this Latin American generation will have to face, as it happened decades ago in the north. Several countries in the region and Chile in particular witness this, with years of repeated protests from students.

Thirdly, the above theme becomes even more relevant when the expansion of education occurs without the modernization of labor markets and in a context of providing raw materials to the more developed economies. If the labor market requires, in particular, low-skilled labor to extract and process raw materials, training professionals in a massive way leads directly to mismatches between educational and work spheres, particularly in countries where the State does not have greater capacity for regulation^[6]. This is already happening.

If we add to this a fourth element, which is not merely Latin American, but affects many countries, the disaffection of traditional politics, we not only witness a strong increase of protests with the appearance of critical citizens, in the streets and social networks - which in any case is usually healthy for the democratic exercise - but the rise of outsiders: people who do not vote, disaffected and silent individuals and families, who, disappointed regarding the promise of reaching a more stable middle class, could be seduced again by populist electoral offers, as has been seen recently not only on the continent, but also in the north^[7].

What are challenges then for public policy? These are numerous, especially when much remains to be done with respect to poverty and the popular

sectors, which leads the middle class members to feel little protected or heard by political elites compared to other groups. For all social sectors, economic growth is crucial, but particularly for the middle sectors, which have no assets and do not receive transfers from the State, or very little.

The ups and downs of Latin American economy as a function of the price of commodities in international markets, particularly for small countries and with narrow domestic markets, are an obstacle. Although in the case of Chile, Chinese demand for copper has boosted the economy and public investment, the question is, as for all commodity booms, until when? This is an old question in the political and economic history of the region, but without a strong impulse, the trap of the average income cannot be overcome, despite the promises to reach development to the horizon of the government in turn or the decade following.

The diversification of the productive matrix towards higher aggregate sectors and skilled work is even more crucial when many countries face the turn of their economy towards globalization and new technologies. Chile is far from facing this challenge and the slowdown of its economy will not facilitate a turnaround. Another crucial problem for the region, which differentiates the local middle classes from their counterparts in Europe, is their relationship with the State and public policy. Although the State has a greater presence in countries such as Argentina, Bolivia, Ecuador or Mexico, many of the new middle contingents in Chile are convinced that their social rise is due to their own efforts and that the State only helps the poorest. Social policies are then usually taken very ambivalently: there is a demand for greater public support as can be seen in the protests associated with student demands, or the reform of the pension system, but middle class families reject the discriminatory seal and dependence associated with the provision of public goods, generally of lower quality than private ones, especially regarding education and health.

Then, how to provide better public services, to get out of pro-poor growth or mean-tested social policies to move towards universal coverage policies, in a context of deceleration? Looking ahead or towards other latitudes allows us to glimpse an uneven road for the new middle-class generations. They left poverty or economic difficulties faced by their grandparents and their parents, but they fear losing their precarious status, above anything else: many of their members see the future with a ceiling in their hopes of mobility and for their children. In any case, it is crucial being attentive to the different segments that make up the middle sectors and their ambivalent demands.

First, they need economic growth to allow them to overcome their vulnerability, which the economic model and the weakness of social protection policies do not ensure, unlike in Europe or some Asian countries. Perhaps this is the pressure that is required for a change of course in public policy, to leave behind the minimum inclusion and now seek higher standards of living publicly guaranteed.

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GROWTH, EXPANSION AND CONSUMPTION OF THE



THE



MIDDLE

CLASS





Articles

Steven Pressman

The middle class in
South America

Marcos Robles and Marco Stampini

Expansion and sustainability of the
middle class in Latin America

Maria Isabel Zafra and Hernán Duarte

Dynamics of consumption of the middle class
in Cali: an intergenerational approach.

The middle class in South America

Pág 42 - 48



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Introduction

Over most of human history, the large majority of people lived in poverty or near poverty, barely making enough to survive on a daily basis. The notion that a large fraction of the population could experience a better life was not widely accepted even 100 years ago. Only after World War II did a middle class start to grow and flourish in developed countries. Towards the end of the 20th century a fairly large middle class began to arise in developing nations. This change is important for several reasons.

The Greek philosopher^[1] noted that communities with a large middle class would not be dominated by either of the income extremes and would be better run. More recently, Lester Thurow^[2] argued that social unrest increases when incomes and people become polarized. Inequality also reduces what Robert Putnam^[3] called social capital or trust. All of this undermines democracy.

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Second, inequality is bad for our health^[4,5]. It reduces the control people have over their lives, creating chronic stress. Stress triggers chemical reactions in the body that were designed for emergency situations where people had to fight or flee. These responses helped save the lives of our ancient ancestors during times of immediate threat; but with repeated stress, these chemicals remain in the bloodstream, disrupt normal body functions, and increase the probability of health problems^[6].

Finally, a large middle class is important for economic reasons. Alfred Marshall^[7] noted that increased earnings may improve the character and habits of working people. As a result it may reduce crime and improve worker productivity, thereby raising average incomes. From a Keynesian perspective, income inequality reduces consumption, effective demand and economic growth. Irma Adelman and Cynthia Morris^[8] make a strong case that a growing middle class was the driving force behind economic development in all of Western Europe.

To date, most studies examining the middle class have focused on developed countries. There is only a small literature looking at the middle class in developing nations^[9,10,11]. This paper looks at the middle class in five South American countries, and examines why these countries differ in terms of the size of their middle class. But first, we must address two questions where to get data to do such a comparative study and what makes one middle class.

The Luxembourg Income Study

Our empirical work relies on the Luxembourg Income Study (LIS), an international database containing extensive income as well as socio-demographic informationⁱⁱ. Virtually all LIS data, including the data from South America, originally came from national household surveys used to estimate household income and its distribution. These surveys, and therefore LIS data, contain a

ii. For more information about LIS, see www.lisproject.org.

wealth of socio-demographicⁱⁱⁱ information as well as detailed information about income sources for each household. Raw data from each country then gets “lissified” to make it as comparable as possible to the data from other countries.

In July 2017, 47 countries were part of the LIS database. LIS data centers around particular years, called “waves”, with each wave around three to five years apart. Wave #1 begins in the early 1980s. Wave #9, the most recent wave, contains data centered around 2013. Data is not available for all LIS countries in every wave. This is especially true of developing countries, where data typically exists only from the 2000s onward.

Currently five South American nations are part of LIS database—Brazil (2006-13), Colombia (2004-13), Paraguay (2010-13), Peru (2004-13) and Uruguay (2004-15). These databases enable us to measure the size of the middle class in South American countries, and to compare the size of the middle

iii. For more information about LIS, see www.lisproject.org.



class in these countries with the size of the middle class in developed nations.

Who is Middle Class?

No definition of “middle class” exists that most social scientists accept. The good news is that the many different definitions yield very similar results. This paper employs a fairly popular measure. A household is considered middle class if its adjusted household disposable income falls between 67 and 200 percent of median adjusted household disposable income. This definition is consistent with what Americans have said is necessary to be middle class in the community where they live^[12]. It is also the income range that enables US households to purchase the basket of goods and services that most people regard as necessary for a middle-class existence^[13]. Another advantage of this definition is that it is easy to use in cross-national and time-series studies, since the middle class is measured based on the median income in one place at one time.

It is crucial that we adjust household income to account for differences in household size and the fact that a particular income figure does not provide the same standard of living for households of different sizes. An income of \$24,000 can support a single individual in the US reasonably well. But in 2013 a family of five would have been considered poor with this income. In what follows, we use a standard LIS adjustment for household size, dividing household income by the square root of the number of people in the household. Households are considered middle class if their adjusted household income fall between 67 percent and 100 percent of adjusted median household income.

Finally, we must deal with one additional problem. Real median household income can decline over time in one country. It can even decline sharply, as occurred during the Great Recession. In these situations, many people will feel they have fallen out of the middle class because their real income fell from recent and accustomed levels; the fact that average income also declined will provide little

comfort although it will result in calling these households “middle class”. To correct for this, we make one minor adjustment to our computations. Whenever real median adjusted income falls, we use the highest real median adjusted income before that time to calculate the size of the middle class (and then follow our normal procedure).

The Size of the Middle Class in South America

Table #1 provides information on the size of the middle class for the five South American countries for which LIS data exists. The top half of the table contains the most recent data for these countries. On average, in 2013 around half of all households in these countries can be regarded as middle class. Colombia had the smallest middle class, with only 44.7% of households classified as middle class. Paraguay and Peru did a little better, but still less than half of all households were middle class. In Brazil a bit more than half of all households in these nations were middle class in 2013, while in Uruguay



58.2% of households were middle class.

By means of comparison, during early 2010s, the middle class in most developed countries was much larger— close to 60% of all households on average. And in some countries (France, Norway and Sweden) the middle class exceeds 65% of the entire population. Only the United States, where 50% of households are middle class, approaches the low levels found in South America^{iv}.

The figures presented in Table 1 are consistent with what we know from other sources about these countries and their distribution of income. LIS summary statistics of income distribution^{iv} ranks Uruguay as having (by far) the most equal distribution on various distribution measures, including the Gini coefficient and the Atkinson coefficient, and the ratio of income received by someone at the 90th percentile relative to someone at the 50th percentile of the income distribution. Brazil comes in a distant second among our five South American countries; and Colombia has the

most unequal income distribution among the five nations according to various inequality measures.

The lower half of Table 1 provides some historical perspective on the middle class in South America. This historical perspective is not lengthy due to the lack of available data. Looking at the table as a whole, we see that in Brazil, Peru and Uruguay the middle class grew from the mid-2000s until 2013. In Paraguay, the size of the middle class remained relatively constant between 2010 and 2013. Colombia is the only country where the middle class declined over time, falling from 47% of all households in 2004 to 44.7% in 2013.

Again, a comparison with developed nations is illuminating. Pressman^{iv} finds that there was a tendency for the size of the middle class to decline in nine developed nations over several decades. In the US the middle class fell sharply (from 59% to 50%) and it fell slightly in Finland, Germany and the UK. In some nations (Canada, Italy, Norway, Sweden) the size of the middle class remained relatively stable; only in France did the

iv. Para más información sobre LIS, consulte www.lisproject.org.



Table 1. The middle class in five South American nations

Country & Year	Percentage of Households that are Middle-Class	Percentage of Households that are Lower Class	Percentage of Households that are Upper Class	Percentage of Households that are Middle Class Without Transfers	Increase in the Size of the Middle Class Due to Transfers
BRAZIL (2013)	51.1	30.2	18.7	37.7	+13.4
COLOMBIA (2013)	44.7	32.8	22.5	39.2	+5.5
PARAGUAY (2013)	47.4	32.4	20.2	43.7	+3.7
PERU (2013)	46.1	34.2	19.6	43.0	+3.1
URUGUAY (2013)	58.2	26.6	15.1	40.9	+17.3
Historical data					
BRAZIL (2006)	46.9	31.2	21.8	35.3	+11.6
BRAZIL (2009)	48.8	30.8	20.4	36.9	+11.9
BRAZIL (2011)	50.0	30.5	19.5	37.5	+12.5
COLOMBIA (2004)	47.0	30.6	22.3	44.6	+2.4
COLOMBIA (2007)	42.5	34.0	23.6	39.3	+3.2
COLOMBIA (2010)	47.5	31.0	21.5	42.7	+4.8
PARAGUAY (2010)	47.2	32.8	19.9	43.0	+4.2
PERU (2004)	40.1	36.4	23.5	37.1	+3.0
PERU (2007)	41.7	35.5	22.7	38.6	+3.1
PERU (2010)	45.4	34.5	20.0	41.7	+3.7
URUGUAY (2004)	53.8	28.1	18.1	33.4	+20.4
URUGUAY (2007)	52.7	28.7	18.6	35.4	+17.3
URUGUAY (2010)	54.6	27.7	17.6	36.9	+17.7

Source: Author's calculations from the Luxembourg Income Study

The Role of Government and the Size of the Middle Class

Theories abound concerning what determines the distribution of income within a nation at a particular time and what determines the size of its middle class. Economists tend to focus on the individual, or their marginal productivity, arguing that the value of what people produce determines their income. There are a number of noteworthy exceptions to this consensus. Thomas Piketty^[15] has emphasized the role of wealth as determining income and income distribution; as wealth inequality rises, income inequality does also, decreasing the size of the middle class. Other economists focus on economic power as a key determinant of the distribution of income^[16].

Here we take a slightly different tack, looking at the role of government in determining the size of the middle class. Pressman^[17] showed that progressive government tax policies and generous spending programs determine the size of the middle class across nations and within one nation over time. Pressman^[18] looks at family allowances and paid parental leave, and shows that these two policies significantly increase the size of the middle class, especially for households with children.

Unfortunately, data for these two programs is unavailable in LIS for our five South American nations. The best we can do is measure all transfer payments going from the government to households and study its impact on the size of the middle class. We do this in the last two columns of Table 1.

One most interesting and important result of this analysis is that without the government transfers Uruguay does not do markedly better than our four other South American nations. The pre-transfer middle class in Uruguay was 40.9% in 2013, a bit less than the pre-transfer middle class in Peru (43%), Paraguay (43.7%) and not

much greater than the pre-transfer middle class in Colombia (39.2%). Government transfer programs increased the size of the middle class in Uruguay by 17.3 percentage point, from 40.9% to 58.2%. In comparison, the increases are much smaller in our four other nations—13.4 percentage points in Brazil, 5.5 percentage points in Colombia, 3.7 percentage points in Paraguay and 3.1 percentage points in Peru. It seems that, as in developed nations, generous government programs are necessary for a large and thriving middle class in South America. These programs transfer not just money; they also move households into the middle class. One bit of good news is that transfer programs became more effective in growing the middle class over time in Brazil and in Colombia.

Summary and Conclusion

This study has used the LIS to examine the size of the middle class in several South American nations. One main finding is that the middle class in these nations is smaller than in developed countries. Another key result is that, except for Colombia, the middle class has not been shrinking in South America during the 21st century as it has in many developed nations. Finally, other than Brazil and Uruguay, government policy does very little to increase the size of the middle class.

These results are supported by studies showing that government programs that aid citizens facing difficult times result in greater income equality^[19,20]. They also support my previous work^[17,18] on the determinants of the size of the middle class in developed nations, which found that a large and thriving middle class requires a progressive tax system and a set of generous government spending programs that benefit low-income and middle-income households. The lack of such policies helps explain why the US middle class is smaller than that of other developed nations and changes in these programs over time helps explain why the US middle class has declined over several decades^[14].

South American nations do not have a large middle class compared to developed nations. A large part of the reason for this is absence of generous transfer programs to aid the middle class. If the middle class is to expand in South America, the state must step up and must expand policies that support the majority of their citizens.

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Expansion and sustainability of the middle class in Latin America*

Pág 36 - 39



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Using different definitions, the literature has shown that the middle class has a higher propensity to save, invest and engage in entrepreneurship; it has consumption habits that can stimulate economic growth and tends to favor more stable and inclusive public policies in relation to other groups^[1]. However, there is still no consensus on how to measure the size of the middle classes. As in the case of the poor, this group has been analyzed considering several dimensions: income, assets, type of occupation, schooling, consumption, etc. Although its multidimensional nature is acknowledged, in Latin America over the last few years the size of the middle class has been measured based on the income distribution. This has simplified the debate about measurement and has allowed analysts to focus on understanding its importance, its determinants and the interventions that could strengthen it. It is a relatively new topic for social scientists in the region, as they have been more focused on analyzing poverty, social exclusion, inequality, etc.

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Under this approach, the middle class has been defined as the group of people living in households with income per-capita between USD 10 and USD 50 per day (USD adjusted with the 2005 PPPⁱⁱⁱ). The lower limit reflects a reduced likelihood of becoming poor -that is, that income falls below USD 4 per day- and the upper limit is the value above which individuals self-identify as upper class^{iv}. The vulnerable, the group below the middle class, are those who have income per-capita between US \$ 4 and US \$ 10 per day and, therefore, a high probability of falling into poverty. These thresholds have recently been updated to USD 5, 12.4 and 62 adjusted with the 2011 PPP^v. Thus, a family of 4 members in the region is considered middle class if their annual income is between 18,104 and 90,520 USD.

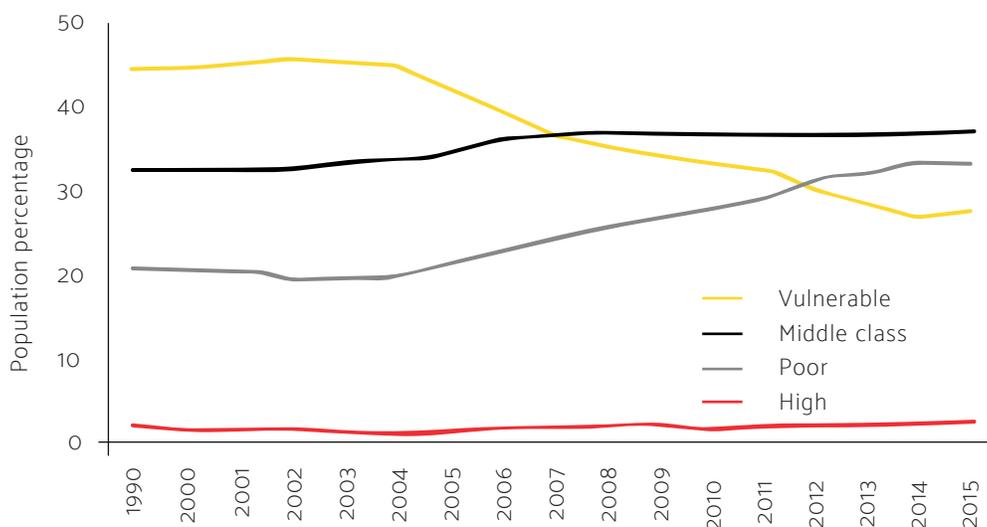
Over the last decade, the middle class in Latin America increased from 100 million people in 2002 to 199 million in 2015^v. This increase occurred in parallel with the decline of the poor, from 237 million to 157 million individuals over the same period. In percentages, poverty declined from 45% to 26% of the population between 2002 and 2015, while the middle class increased from 19% to 33%. Currently, in Uruguay, Chile, Costa Rica, Panama and Argentina the predominant group is the middle class; in Honduras, Guatemala and Nicaragua it is the poor; and in the rest of the countries the vulnerable.

v. These estimates are based on data from the most recent household surveys in the countries of the region, with standardized incomes (converted to PPP USD).

iii. Purchasing Power Parity (PPP) is the factor that converts the local currency to a dollar amount that could purchase the same goods and services in the local market as a dollar in the US.

iv. USD 4, 10 y 50 are multiples of the USD 2.5 poverty line, expressed in 2005 PPP. Similarly, USD 5, 12.4 y 62 are multiples of the USD 3.1 poverty line, expressed in 2011 PPP.

Figure 1. Latin America: Income groups 1999-2015



Source: IDB / SCL: Harmonized Household Surveys in Latin America and the Caribbean

The middle class is characterized by higher levels of school attendance and educational attainment, greater formality of employment, higher female labor market participation, lower birth rates reflected in a smaller household size, and higher rates of urbanization. In 2015, a typical middle-class individual in the region, with respect to lower-income groups, lived in households where:

47% of young people attended school, versus 25% of the poor and 33% of the vulnerable; 37% of employed adults had some degree of tertiary education, versus 7% of the poor and 14% of the vulnerable; 68% of adult women worked, versus 40% of the poor and 53% of the vulnerable; 73% of older adults had access to contributory pensions, versus 13% of the poor and 53% of the vulnerable; The family size was 2.8 members, versus 4.4 of the poor and 3.5 of the vulnerable; 92% resided in urban areas, versus 56% of the poor and 81% of the vulnerable. 64% of middle-class adult workers are affiliated or contribute to the social security system, versus 16% of the poor and 42% of the vulnerable. A relevant aspect of the dynamics of the Latin American labor market over the recent years is that 80% of the increase in formal employment, from 66 to 112 million adults between 2002 and 2015, occurred among the middle class.

The expansion of the middle class is mainly due to the growth of the income of the families that previously belonged to the vulnerable class. Stampini et al.^[3] estimate the mobility between income classes for 12 countries in the region between 2003 and 2013. Each cell in Table 1 indicates the percentage of the population that started in one income group in 2003 and ended in the same or another group in 2013. The column corresponding to the middle class shows that, between 2003 and 2013, 55% ($= 14.3 * 100/26$) of this group remained middle class, 35% ($= 9.1 * 100/26$) came from the vulnerable group, only the 6% ($= 1.4 * 100/26$) came from the poor and 4% ($= 1.1 * 100/26$) from the rich. In general, all those on the diagonal (62%) did not move in the ten years

and all those outside the diagonal (38%) changed groups: 30% moved upwards (right of the diagonal) and 8% downwards (left of the diagonal).

However, in spite of progress, the middle class is not exempt from the risk of falling to lower levels of well-being: Table 1 shows that, although the risk of falling into poverty was only 1% ($= 0.2 * 100/19$), the risk of becoming vulnerable was 21% ($= 4 * 100/19$). Additionally, Stampini et al.³ show that, if the episodes of poverty that each group suffered in the same period are counted, instead of considering only two points in time, the middle class is not exempt from the risk of experiencing poverty: 14% of those that were middle class in 2003 faced at least one episode of poverty during the following decade.

In summary, at least for the period under review, the numbers show that the middle class experiences relatively low probability of ending up poor or in the high income group after ten years. They also show that in general income mobility occurs orderly, from the poor to the vulnerable and from the latter to the middle class. Thus, under favorable conditions of economic growth and stability, it is likely that the middle class will continue to expand.



FUTURE

Table 1. Income mobility in Latin America between 2003 and 2013*

% of population in each group		2013				
		Poor	Vulnerable	Middle Class	High Class	Total
2003	Poor	27.0	18.2	1.4	0.3	46.9
	Vulnerable	3.1	20.0	9.1	0.1	32.3
	Middle Class	0.2	4.0	14.3	0.4	19.0
	High Class	0.0	0.0	1.1	0.8	1.9
	Total	30.3	42.2	26.0	1.6	100.0

Source: Stampini et al. (2016).

Note: * Estimations based on pseudo-panels from 12 Latin American countries

The rise of the middle class and the reduction of poverty in recent years are closely associated with the macroeconomic context prevailing in the region. Excluding 2009, between 2002 and 2014, the region's economy grew at an average annual rate of 4.2% and per-capita GDP (constant USD adjusted for PPP) increased by more than 30%, according to IMF data. That is, the Latin American population had, on average, higher income. During the same period, according to household surveys, income increased more between the low and middle quantiles (1, 2 and 3) than among the highest quantiles (4 and 5), at 4.4% versus 2.1% per year, respectively. This caused income inequality, measured by the Gini coefficient, to drop by 7 percentage points.

These recent achievements - growth at high rates, macroeconomic stability, poverty and inequality reduction, and a significant increase in the size of the middle class - are partly the result of the reforms implemented since the mid-1990s. The region adopted prudent fiscal / monetary management, stricter financial supervision and more responsible

external debt management. It also implemented a substantial transformation and expansion of social programs that focused primarily on the poorest. This favorable context contributed to upward income mobility, from the poor to the vulnerable and from the latter to the middle class.

Although the advances of the last years were important, they were not associated with improvements in productivity. Growth was mainly driven by external demand and the existing supply of labor, rather than by an increase in efficiency and intensity in the use of this factor. To advance in this direction and thus build a sustained and favorable framework for upward mobility, it is necessary that public policies, in addition to growth and social progress, also focus on increasing productivity. As human capital is the main determinant of growth and the factor that explains most of the differences in productivity across countries, emphasis of public policies must be placed on human capital accumulation. This will reduce social inequalities, improve labor productivity, foster economic growth

and enable households to earn higher incomes, which are essential to sustainably reducing poverty and increasing the size of the middle class.

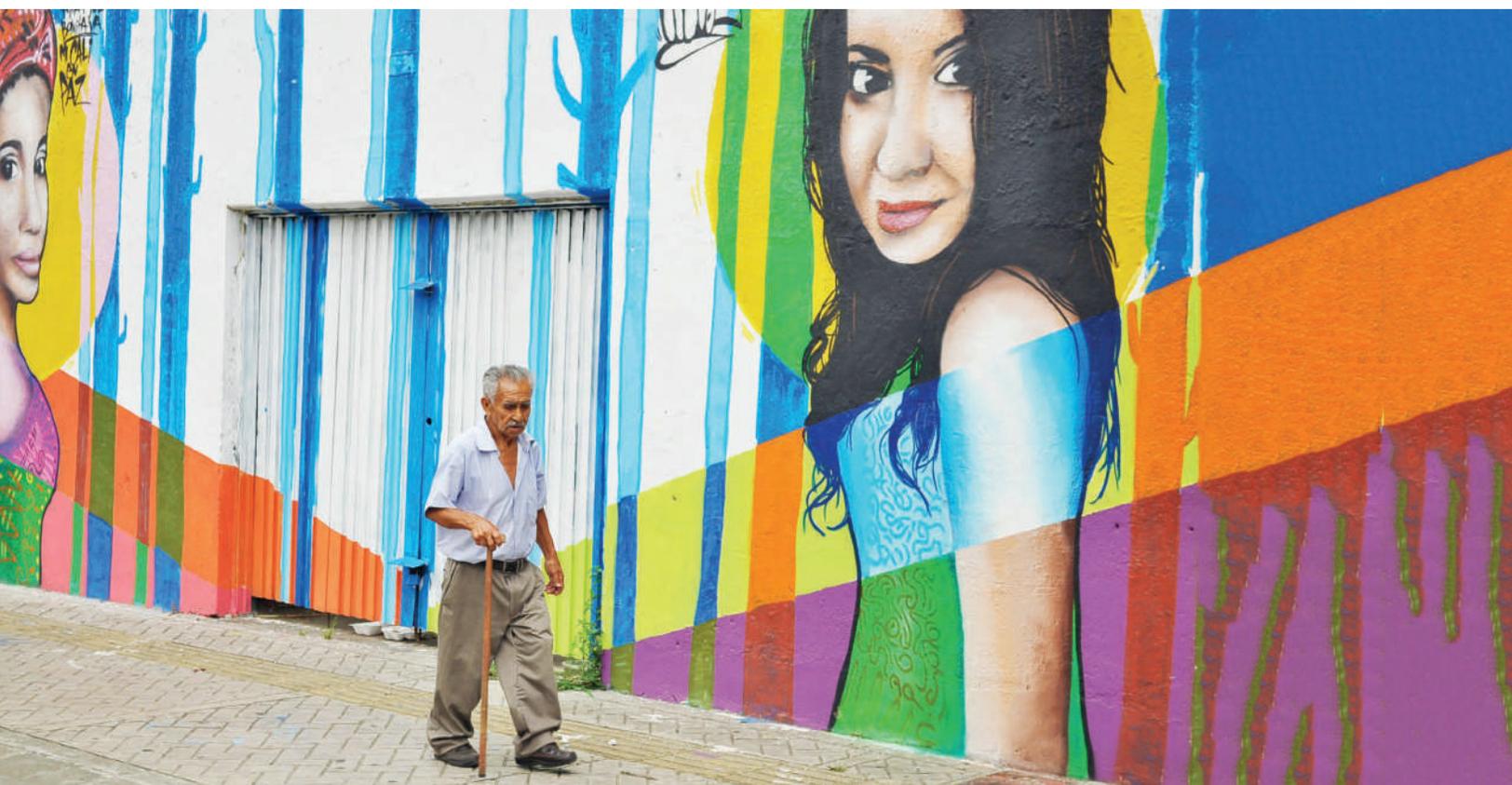
The creation of human capital requires investments throughout the life cycle – in the early years (before entering the school system), during the learning years, in the transition to work, during the working life– and investments that allow households to have adequate levels of consumption, health and nutrition, as well as options to manage their risks (illness, old age, loss of employment, disability and indigence). In this context, three emphases that favor the accumulation of human capital and support the sustained expansion of the middle class, are: (i) investment in early childhood, because this has one of the highest rates of return, generating long-term impacts on productivity and growth; (ii) investment in high quality schools, as this contributes to materializing the benefits of the investment made during the early childhood, and; (iii) investment in job placement and training, access to credit and technological innovation in order to sustainably reduce labor informality.

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Dynamics of consumption of the middle class in Cali: an intergenerational approach

Pág 54 - 59



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Given the constant information generated by individuals in the market, it has become relevant understanding the consumption patterns of social classes. Strategies such as market segmentation have served to identify the relationships between certain goods and services, and the type of clients that would acquire them. However, the expansion of credit, the consolidation of low-cost industries and the growth of the middle class, have increased the demand for consumer goods, which are becoming more frequent in the lifestyles of populations, regardless of the social strata^[1].

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According to Franco et al.^[2], social stratification based on criteria of insertion into the labor market and income distribution, generate a series of controversies when referring to middle class for the loss of labor benefits of contemporary workers^[3], and high rates of inequality in income distribution in Latin America. For this reason, consumption has been presented as a source of differentiation and social stratification.

The main objective of this article is to test if the relationship between certain patterns of consumption and belonging to a social class is less accentuated in a city like Cali, where about 40% of the population belong to the middle class^[4]. In the same way, it is intended to establish if there is a difference in the consumption levels between two generations in the same city: college students and the average citizen. The data used for this comparative analysis comes from two sources: i) CaliBRANDO survey: measures annually life satisfaction in the city and ii) the survey of Intergenerational Social Mobility of College Students of Cali. Both surveys were conducted by the Observatorio de Políticas Públicas - POLIS of Universidad Icesi.

Consumption and social class

As shown in Table 1, the middle class in the city tends to consume more than the lower class. There is a statistically significant relationship between social class and consumption in most items shown below (table 1). This pattern, may suggest that the demand for certain goods such as clothing, beauty services and entertainment has permeated the lifestyles of the population regardless of social class. Although the acquisition of certain goods by the lower class has expanded over the years, the differences in income and stability in the labor market, -among other factors-, have prevented the convergence of social classes of the city.

Using the data of CaliBRANDO (2016), its found that low and medium income population groups display a great demand for consuming goods such as

entertainment (dinning), buy new clothes and spend on hairdresser. Based on these results, is pertinent to question the role of this type of consumption as measures of mobility and social acceptance.

According to Amaldoss and Jain^[5], consumption satisfies a series of social needs that range from prestige, differentiation and distinction. Likewise, Zinkhan^[6] argues that there are a series of products and/or services that transmit information about their owners and the relationships they have with others, where cultural factors become relevant. Based on this, it is possible to suggest that the type of consumption displayed by caleños, allow to project an image of "personal success", which in turn, act as mediator of social status in a city historically affected by the phenomenon of drug trafficking.



CONSUMPTION

Table 1. Consumption patterns of the lower and middle class in Cali (%)

Variable / Consumer items	Lower SES	Middle SES	Significance
Clothes	48	63	***
Children's clothes	34	32	
Books and subscriptions	15	21	***
Movies	20	40	***
Dinning	53	72	***
Hairdresser	43	54	***
Gym membership	4	7	*
Domestic service	2	8	***
Housing remodeling	10	13	
New furniture	13	19	***
Internet connection	24	39	***
Vacations	24	36	***
Travel to another country	18	34	***
Money preferences			
• Save money for the future	62	54	***
• Enjoy the money now	38	46	***

Source: Author's elaboration based on the data from the CaliBRANDO Survey 2016.

Note: Significance level *** p <0.01 ** p <0.05 * p <0.1

One of the aspects that characterizes the middle class is the allocation of discretionary income that can be spent on holiday and leisure activities^[7]. This is reflected in the proportion of middle class individuals who went on vacation during the last year (36%), compared with those of lower income bracket (24%). It should be noted that only 2% of the middle class who took a vacation in the reference period did not leave the country. Thus, through tests of independence, it is found that leaving the country and going on vacation, is statistically related to social class. This aspect is relevant when talking

about conspicuous consumption. One may argue that middle class individuals seek to display that they have enough resources to which are perceived through visible goods^[8], such as trips abroad. However, going on a trip, can represent as hedonic consumption that is determined by the preferences of each individual. Thus, the correct classification would be based on the intentions, values and mental schemes of those who carry out the action.

There is no relationship between the socio- economic level of the respondents, the remodeling of

housing and buying clothes for children. However, it is emphasized that this last item is the only one where the lower class exceeds the middle class by only two percentage points. As for saving patterns, respondents were asked if they preferred to save money for the future or spend it in the present, to which both population groups said that they preferred to think about their future, especially those of low income bracket.

Intergenerational consumption and social class

Although it has been established that there are different consumption patterns among social classes, it is interesting to know whether these differences remain when comparing population groups of different age (intergenerational analysis).

The analysis of intergenerational consumption is frequently approached from the theory of permanent income, developed by Milton Friedman^[9], which describes the way individuals distribute their consumption throughout their lives considering their current income and expectations about their future income. However, the purpose of this section is to identify if consumption patterns are transferred to other generations, that is, if the needs of societies tend to change or remain as society evolves.

Our hypothesis is, since consumption changes according to age, occupation, social strata and unobservable variables such as preferences, the consumption of certain goods could change between social classes of the same generation, as well as between individuals of different generations. The literature has partially supported this idea. For instance, Bruze^[10] suggest that the elasticity of intergenerational consumption doubles the income elasticity and that consumption persists in rich societies or in different social classes to the bottom, since half of the children inherit 50% of the parents' excessive consumption in relation to the average. On the contrary, Mulligan^[11] finds that consumption is lower as the generations increase, because a lower marginal propensity to save of

present generations may decrease the consumption of future generations, through the degree of heritability of income.

However, when taking into account the data reported by the survey of Intergenerational Social Mobility in Young University Students in Cali, it is evident that young people from the middle class in the city are more willing to consume than young people from the lower class (See Table 2), preserving the statistically significant relationship between social class and consumption in the young segment of the population.

Despite differences in consumption -above 10 percentages points-, it is interesting to note that the consumption of young people from the lower income bracket is not different compared to the middle class, particularly in goods such as clothing, movies, food and vacations; this suggest that consumption by social classes can be explained by the preferences of the individuals.

However, these preferences could be biased by factors such as the social strata represented by the acquisition of material goods, in other words, the lack of rationality that young people present when buying, but the high satisfaction they receive for doing it^[12]. In this way, they consider that social gaps are reduced to the extent that they demand the same goods that young people from higher social classes consume. This explains why for goods such as mobile and gym membership have such close differences between classes.

Table 2. Patterns of youth consumption according to low and middle class in Cali (%)

Variable / Consumer items	Lower Class	Middle Class	Significance
Clothes	62	71	**
Books and subscriptions	46	45	
Cellphone service	32	38	
Movies	51	65	***
Dinning	81	91	***
Parties	37	54	***
Hairdresser	49	64	***
Gym membership	8	14	**
Vacations	52	62	**
Travel to another country	32	52	
Money preferences			
• Save money for the future	76	66	*
• Enjoy the money now	24	34	*

Source: Own elaboration based on data from the Intergenerational Social Mobility Survey of University Youth in Cali (2016)

Note: Significance level *** p <0.01 ** p <0.05 * p <0.1

When comparing the results of Table 1 and 2, it is found that there is a change in the consumption patterns between adults and young people given this transition. In goods such as clothing, movies, food, hairdressing, gym membership and vacations, it is observed that the differences in consumption between social classes are maintained, but it is transferred between generations or intensified in young people, because individuals rely on the experiences of their closest peers to build their own aspirations^[13], either equaling or surpassing them in such a way that a level of quality of life is guaranteed higher than that of their predecessors or similar to that of their peers^[12].

These changes in intergenerational consumption patterns are reinforced when analyzing the goods each generation consumes. Variables such as the demand for children's clothing, domestic services, home remodeling, furniture and home equipment and internet, disappear when comparing them with the goods that young people consume. This result could be explained by the diverse needs that each generation faces.

Finally, when differences in money are measured by generations (See Table 1 and 2), it is evident that the variables that compose it are lower in adults than in young people, since it has a direct

relationship with the fact that individuals face to save for the future or consume in the present. That is why the adult population finds a greater benefit when they discount their future consumption to increase it today, instead of the returns they will receive for consuming tomorrow.

In conclusion, we found that there are differences between consumption patterns of the social classes analyzed, regardless of the generational group they belong; however, these differences are higher from an intergenerational approach (average citizen vs. university students), but they decrease from a peer perspective (young vs. young). This provides some evidence for the market to continue generating strategies to optimize resources in the full identification of potential consumers for certain goods, considering the cultural and social factors of the city.

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In this policy brief, we want to provide a tribute to the effort and impeccable work of the administrative staff of Universidad Icesi. They are the ones featured in this edition. Their work ethic and dedication are an example of all caleños. Infinite thanks for the disposition in the realization of this project.

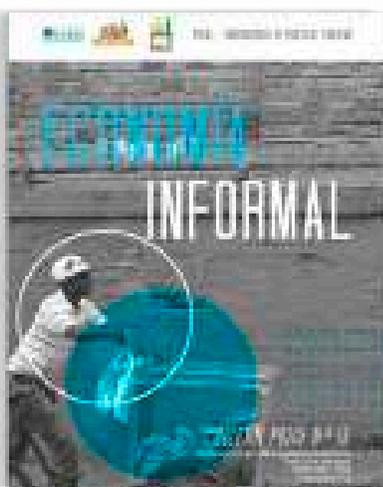
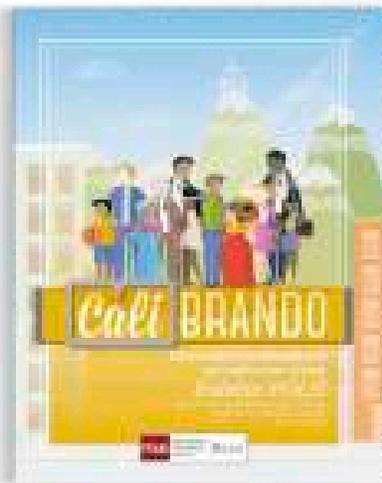
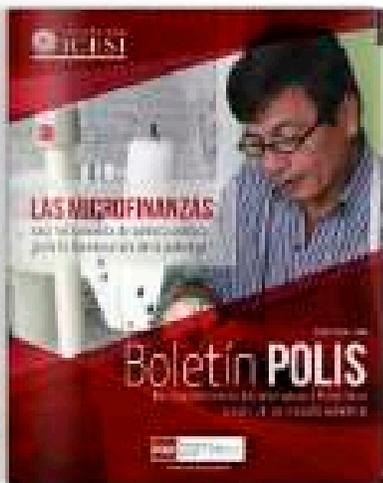
We thank Universidad Icesi and in particular, to the school of business and administration, for providing the time, resources, and independence to produce POLIS's research.





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