

Social Transformation in Latin America: Greater Mobility and more Middle Class

According to a recent report of the World Bank, income increase and economic growth have been the main promoters of social mobility in the region. The vulnerable class is still the region's most important social class and the population living in poverty conditions has significantly reduced during the last 15 years. According to the last figures, 30% of the population in Latin America belongs to the middle class.

With the purpose of evaluating the economic evolution of the middle class, the World Bank recently published a document called "Economic Mobility and the Rise of the Latin America Middle Class".¹ Briefly, this report shows how economic growth and better incomes have consolidated the middle class in the region.

Latin America has undergone a very important social transformation process. Between the years 2000 and 2010, economic growth reached 3% in the region and the poverty rate went from 41.1% to 28.0% of the population: 50 million people come out of poverty. Inequality dropped 3.5 Gini points on average in the same period of time, mostly in the biggest countries such as Brazil, Mexico and Argentina. Furthermore, the middle class increased from 100 million people

to 150 million between 2000 and 2010.

The Rise of the Middle Class

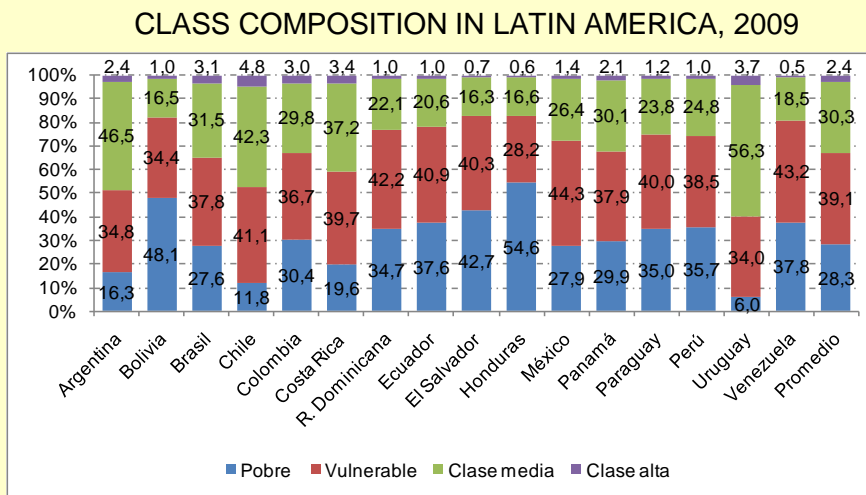
In this document, the World Bank proposes an absolute definition of middle class based on income and the security concept. By security we understand the necessary income to reduce the probability of being poor to less than 10% in a 5-year term. Then, a poverty threshold is determined when daily income per capita is less than US\$4 per day; vulnerable, between US\$4 and US\$10 per day, and consequently, the probability of being poor is greater than 10% in a period of 5 years; for the middle class, a threshold of US\$10 to US\$50; and for the upper class when it is higher than US\$50 per day. Thus, the annual income of a middle class family of 4

members would oscillate between US\$14,600 and US\$73,000, that is, approximately CLP\$600,000 and CLP\$3,000,000 per month.

According to this definition, 30.5% of the Latin American population lives in poverty conditions; 37.5% in vulnerability situation; 30.0% corresponds to the middle class; and 2.0%, to the upper class; being the vulnerable class the most extended one in the region.

Chart 1 shows the class composition in Latin America and we observe that Honduras is the country with the highest number of people living in poverty, and Uruguay is the country with the lowest poverty rate, 54.6% and 6.0%, respectively. Mexico has the highest proportion of vulnerable population in the region and Honduras, the lowest, 44.3% and 28.2%. Then, Uruguay is the country with more middle class (56.3%) and El Salvador, the country with less (16.3%). While Chile is the country with the highest percentage of upper class population (4.8%) and Venezuela has the lowest one (0.5%).

Chart 1



Source: World Bank

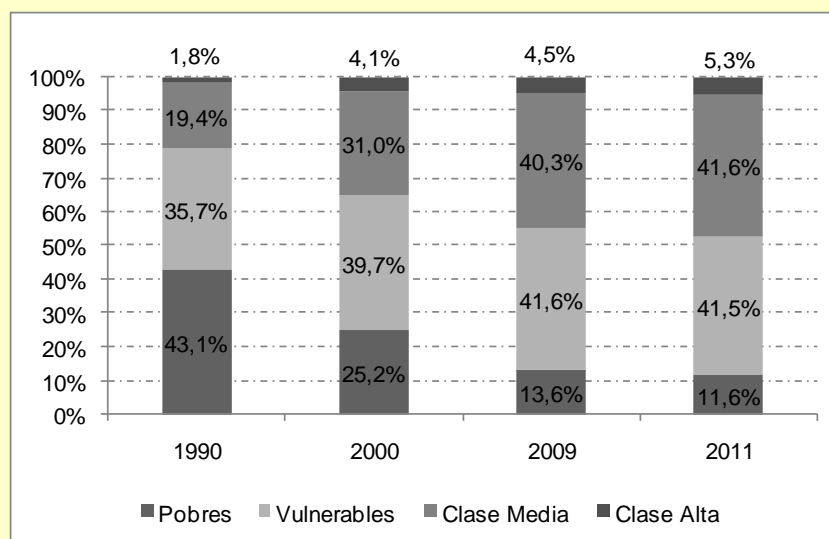
In the case of Chile, 11.8% is ranked as poor; 41.1% as vulnerable; 42.3% as middle class and 4.8% as upper class. It is the second country with less proportion of poor in the region and the middle class is the most important social class within the population. Furthermore, the middle class grew 36.7% between 2003 and 2009, increasing from 5,248,997 people to 7,175,861 in the same period.

Then, if we apply the World Bank definition and the CASEN Survey data, from 1990 to 2011, we can estimate the evolution of the social composition in our country. Chart 2 shows that the poverty rate has significantly and

steadily reduced since the nineties, from 43.1% to 11.6%. Moreover, the vulnerable and middle classes are currently the most numerous ones.

Chart 2

EVOLUTION OF THE FAMILIES IN CHILE, 1990-2011



Source: Prepared by L&D, based on CASEN Survey.

Among the middle class characteristics, data reveal that these families have fewer children than the poor and vulnerable families and higher education levels; they live mostly in urban zones, work in the private sector and a greater proportion of women work (73% of the women are employed or looking for a job in the region).

This report shows that between 1995 and 2010, economic growth accounts for 66% of the reduction of people in poverty conditions and 74% of the middle class expansion. This demonstrates once again how important it is to favor growth policies for poverty uprooting.

Social Mobility Improves

In the region, the transformation process has been mostly upwards and, as we have shown, middle class has significantly increased. 43% of the Latin American population has undergone a social class change between 1995 and 2010, and in general, this change has implied an improvement in the families' situation; only 2% has worsened their situation. In Table 1, middle class is considered when income exceeds US\$10, that is, the upper class is included in the middle class definition.

This table shows the intragenerational mobility, which follows the same people over time, and we observe that during those 15 years, 22.5% of the people stayed poor, while 21.0% went from poor in 1995 to vulnerable in 2010. Then 14.3% stayed vulnerable and 18.2% of the population went from vulnerable in 1995 to middle class in 2010.

Table 1

INTERGENERATIONAL MOBILITY IN LATIN AMERICA, 1995-2010

		2010			
		Poor	Vulnerable	Middle Class	Total
1995	Poor	22.5	21.0	2.2	45.7
	Vulnerable	0.9	14.3	18.2	33.4
	Middle Class	0.1	0.5	20.3	20.9
	Total	23.4	35.9	40.7	100.0

Source: World Bank

This report also shows that within the region, Chile is the country which has experienced the greatest upward mobility. From 1992 to 2009, approximately 60.7% has improved its condition and 39.3% has maintained it. We also observe that 27.3% of the people went from a poverty condition in 1995 to a vulnerable one in 2010. While 31.4% went from being vulnerable in 1995 to middle class in 2010 (see Table 2).

Table 2

INTERGENERATIONAL MOBILITY IN CHILE, 1995-2010

		2010			
		Poor	Vulnerable	Middle Class	Total
1995	Poor	11.6	27.3	1.9	40.9
	Vulnerable	0.0	7.9	31.4	39.3
	Middle Class	0.0	0.0	19.8	19.8
	Total	11.6	35.3	53.1	100.0

Source: World Bank

On the other hand, we observe that the intergenerational mobility is still limited compared to other developing countries. This kind of mobility associates the parents' education and income levels with their children's result.

Conclusion

This report shows that income increase and economic growth have been the main promoters of social mobility in the region. The importance of the

middle class has not only grown in the continent, but also in our country, as a consequence of economic growth.

The vulnerable class is still the region's most important social class and the population living in poverty conditions has significantly reduced during the last 15 years. According to the last figures, 30% of the population in Latin America belongs to the middle class.

We observe that in the last 15 years, over 40% of the region's population has improved its economic situation, and Chile is the country which presents the highest mobility level in Latin America.

In brief...

SOCIAL TRANSFORMATION IN LATIN AMERICA:

- In the last 15 years, Latin America has undergone an important process of upward social mobility. Approximately 40% of the families improved its social class.
- The middle class has gained a significant position in the region (30.0%). However, the vulnerable class is still the most important one.
- Chile is the country presenting the highest upward mobility in the region and the middle class represents 42.3% of the population.

ⁱ Ferreira, Messina, Rigolini, López-Calva, Lugo and Renos: "Economic Mobility and the Rise of the Latin America Middle Class". World Bank, Washington D.C., 2012.