



BACKGROUND NOTE

Status and aspirations of the middle class: opportunities and challenges for sustainable development

As the Sustainable Development Goals (SDGs) globally aim at reducing poverty, their success would entail a growth in the (lower) middle classes worldwide. Between aspirations to upward mobility and fear of falling into poverty, this social group is an important constituency for political stability and economic growth. Their opposite trajectories in industrialised and developing countries do not prevent one from identifying common challenges for sustainable development: the design of fiscal redistribution systems, the provision of public services and social protection, and the behavioural shift to more sustainable consumption. This questions the ways that individualism, collective action and State intervention can link up around new political values and agendas to be built.

1. CONTEXT

The way that the middle classes are defined (economic or sociological, relative or absolute criteria) is decisive as to the challenges considered for public policy. Here we define the middle classes as the 'neither rich nor poor'.

◇ *Status and trajectories of the (lower) middle classes*
In industrialised countries, the middle classes are situated between the 4th and 9th income deciles. The 'shrinking middle class' concept, though controversial, sheds light on the decrease in recent decades of the share of income received by middle income groups out of the total income, while the share going to the upper decile has grown substantially. Studies also point to reduced aspirations among the middle classes in terms of social progress in post-(high) growth developed economies.

In developing countries, global middle classes are emerging. Using the \$10-\$100 daily income range definition, the middle classes will mainly rise in Asia, particularly China and India, fuelled by rapid economic growth. In Latin America, the reduction of poverty also entails a sustained growth of the middle classes. As to the lower middle classes, the \$2-\$13 daily income range seems more adequate to account for those who

have reached a "little prosperity", have the capacity to spend on consumer goods and services beyond mere food and subsistence but remain exposed to economic and life risks.

Beyond income levels, the middle classes are considered to share practices and values. Though not poor, they remain vulnerable, hence adopting aspirations of comfort, safety and stability; upward social mobility and/or fear of falling into poverty; values of hard work and search for professional status, demand for democracy and political stability, social progress (women's employment, smaller families), home ownership and household equipment, modern urban lifestyles, etc.

◇ *The importance of the middle classes*

The middle classes represent the bulk of political constituencies and market demands. Broadly speaking, their relative decline in industrialised countries and emergence in developing countries question the societal equilibrium. Hence the importance of their inclusion in development processes to ensure sustainable trajectories.

Historically, the middle classes are considered to be the pillars of democracy and of the market economy. More educated and free from traditional solidarity networks (in particular, the family), they have tended to be politically mobilised. Demands for public services and civil rights have emerged in parallel with the Welfare State; in the current context of economic crisis and growing inequalities, unsatisfied aspirations may entail frustration. In developing countries where public services and institutions are often deficient, the lower middle classes may turn to private services and adopt a rather apathetic political attitude. Overall, the social contract of redistribution and solidarity risks being degraded. Political disaffection (abstention, extreme voting) combined with individualism may also challenge the basis of collective action and commitment.

In addition, the middle have the capacity and aspirations for consuming 'modern' goods and services, thus permitting the growth of domestic markets. As a driver for economic development and a way to satisfy social demands, middle classes' consumption (and

that of the lower middle classes particularly) ought to be protected. Nevertheless, consumerism may conflict with the imperatives of the environment and climate protection, thus questioning the whole social model, behaviours and values. A potential tension therefore exists between consumption and growth on the one hand, and sustainability and the environment on the other.

2. ISSUES/SOLUTIONS

Though not directly tackled by the SDGs, target 10.1, which aims at sustaining the income growth of the bottom 40% of the population, will help foster the growth of the lower middle classes; consequently, adopting 'fiscal, wage and social protection policies to achieve greater equality' (target 10.4) and ensuring 'effective, accountable and transparent institutions' and 'responsive, inclusive, participatory and representative decision-making' (targets 16.6 & 16.7) will be key. Conversely, insufficient action could create socio-political discontent.

◇ *Fiscal systems for collective redistribution*

The middle classes represent the largest tax base, both in absolute terms (the largest and/or growing category) and in terms of relative contribution (the French middle classes pay more effective taxes than lower and higher income groups). In parallel, they are dependant on and demanding of public social services. Nevertheless, with inequalities, deficient public services and/or in State institutions, their national solidarity can become fragile. The tax burden faced by the middle classes may lead them to call for cuts in poverty reduction spending, i.e. expenditure they would directly benefit from and increased taxation of the rich. A sustainable fiscal system thus relies on quality public services, trust in public management and the acceptance of a social contract and a public interest beyond individual contributions and benefits. The complex equation is to design a taxation system that satisfies both the willingness and the ability of these middle classes to pay tax.

◇ *Social policies for human capital*

Investment in the future is key for the lower middle classes, as well as the search for safety vis-a-vis economic and life risks. Consequently, their main demands and investments are made in children's education, home ownership, health insurance, pension funds, etc.; employment stability also reduces vulnerability. Social policy and safety nets are crucial to prevent the falling-back-into poverty (and hence burden the welfare system). Public investment into enhancing human capital will also spur future increased productivity, innovation capacity, and social cohesion. In developing countries particularly, private health and education services often emerge to compensate for deficient public services. Therefore, besides public provision, the challenge turns to the question of regulation and equity of these private social services that serve collective interests, and their relationship with the public social safety net.

◇ *Environmental policies for sustainable consumption*

The emergence of the middle classes in developing countries, through the emulation of consumption and resource intensive lifestyles, presents environmental threats: CO₂ emissions, resource depletion and environmental pollution are increasing (China has the world's largest automobile market and India's is the fastest growing). The evolution of these consumption patterns will determine national and global environmental impacts. Public policies for sustainability will have to drive changes in the consumption behaviour of the middle classes towards more sustainable patterns.

3. OBJECTIVES OF THE SESSION/ QUESTIONS

- To satisfy individual aspirations for upward social mobility, or address the of downward mobility, how are we to deliver and regulate quality public services, social protection and safety nets?
- How can individualism be combined with the willingness to contribute to fiscal redistribution and constituency for the social contract?
- Globally, the shift from poverty to (lower) middle class status and consumption practices threatens the environment; what steps should be taken to change awareness and behaviours towards sustainability?
- Within and across countries, the social movements of the middle classes are an increasing challenge for States (e.g. Brazil, Arab Spring); what does that mean as to public accountability and legitimacy, and what can be done to improve decision-making and reinstate social contracts?

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