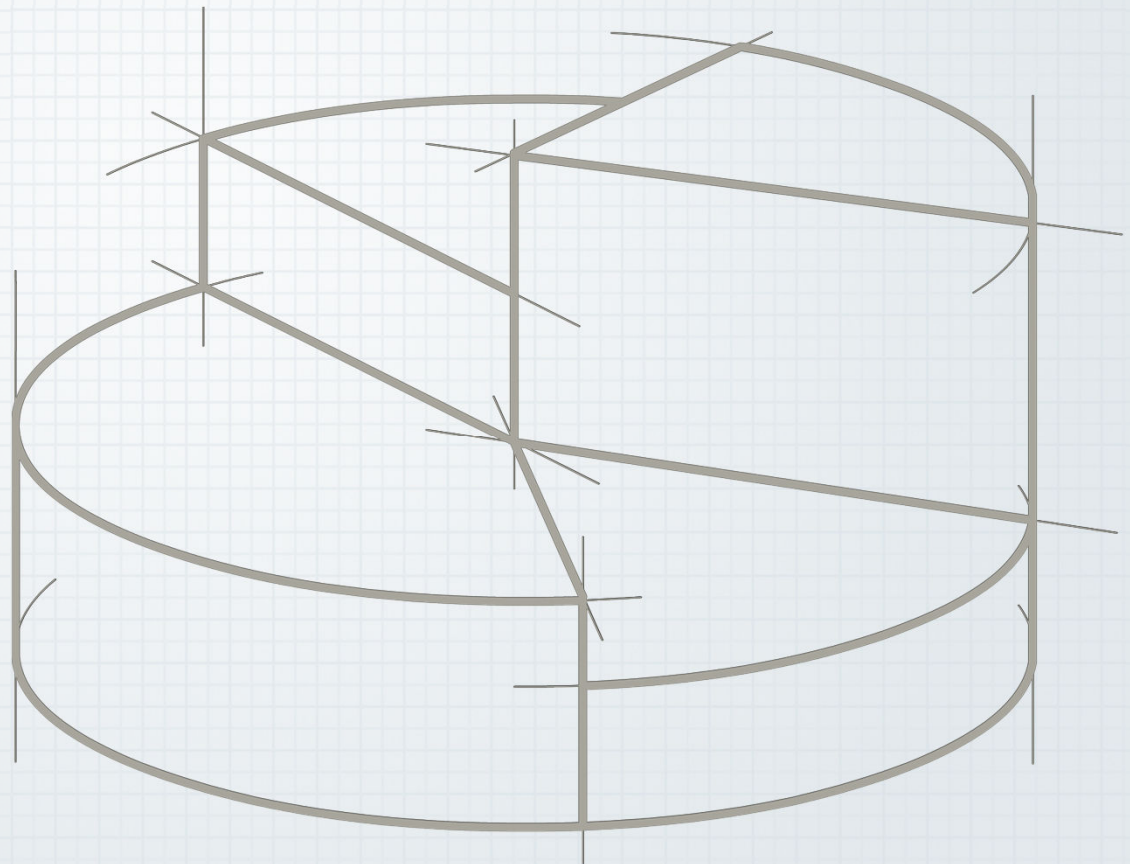


# Brazil's New Middle Classes: The Bright Side of the Poor

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# Outline:

## *Concept*

The concept of the Brazilian middle class using an income-based measure (only the beginning).

SECTION

1

## *Evolution*

Chart income-based classes' past performance and forecasts using household surveys (and longitudinal survey data).

SECTION

2

## *Sustainability*

The sustainability of the middle class by measuring stocks of productive assets and of durable consumption goods (permanent income) .

SECTION

3

## *Values & Perceptions*

A preview of somewhat richer profile of different income based economic classes' (current or permanent) attitudes and perceptions.

SECTION

4

# Conceptualizing

## *the Middle Class*

**absolute or relative measures?**

**w.r.t. each country or w.r.t. the world?**

**Incorporating the probability  
of becoming poor or rich?**

**Derive it from a social welfare function?**



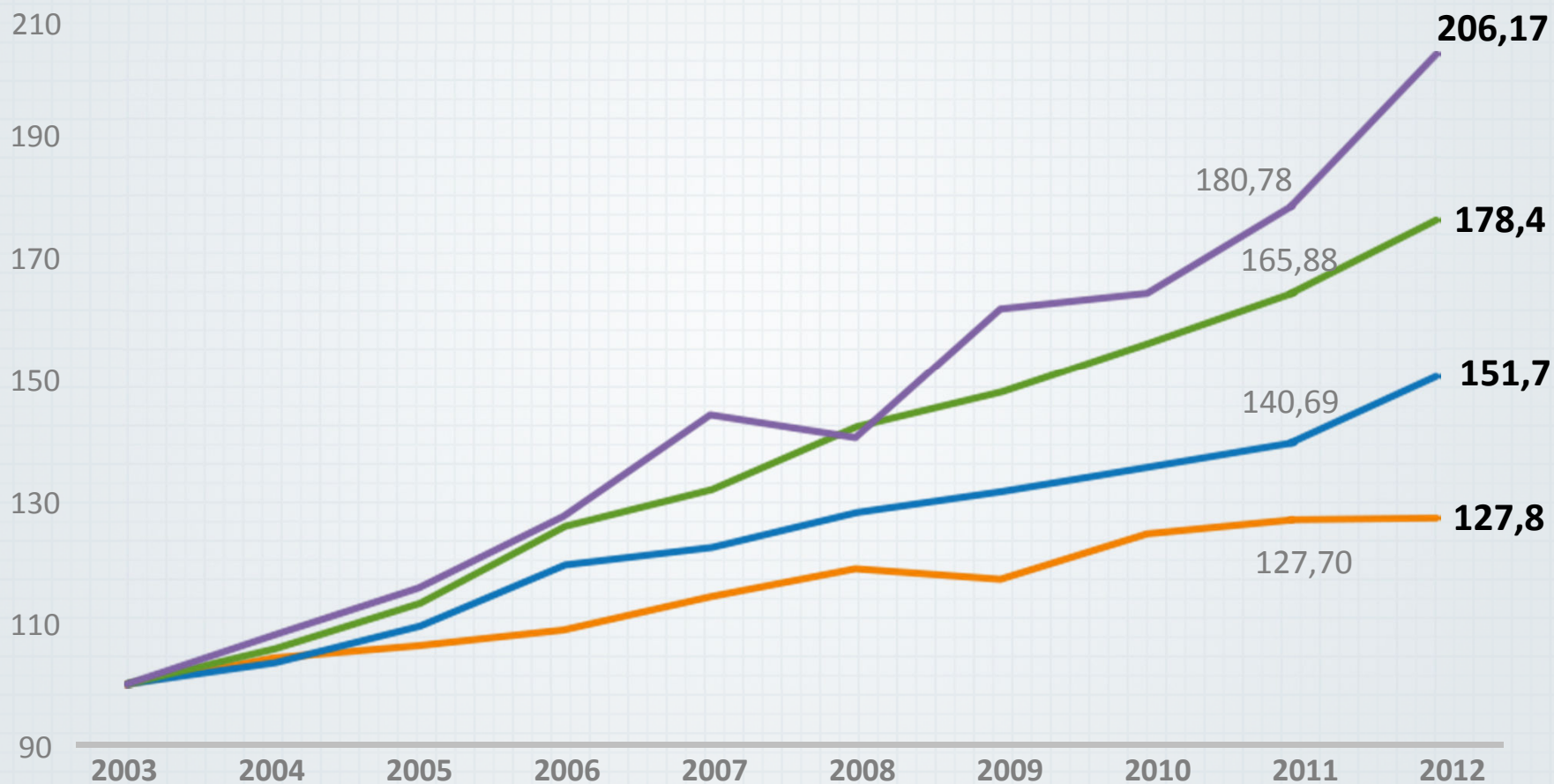
1



# The Relevance of the median

**GDP X Mean NHHS X Median NHHS X 10% Poorest**

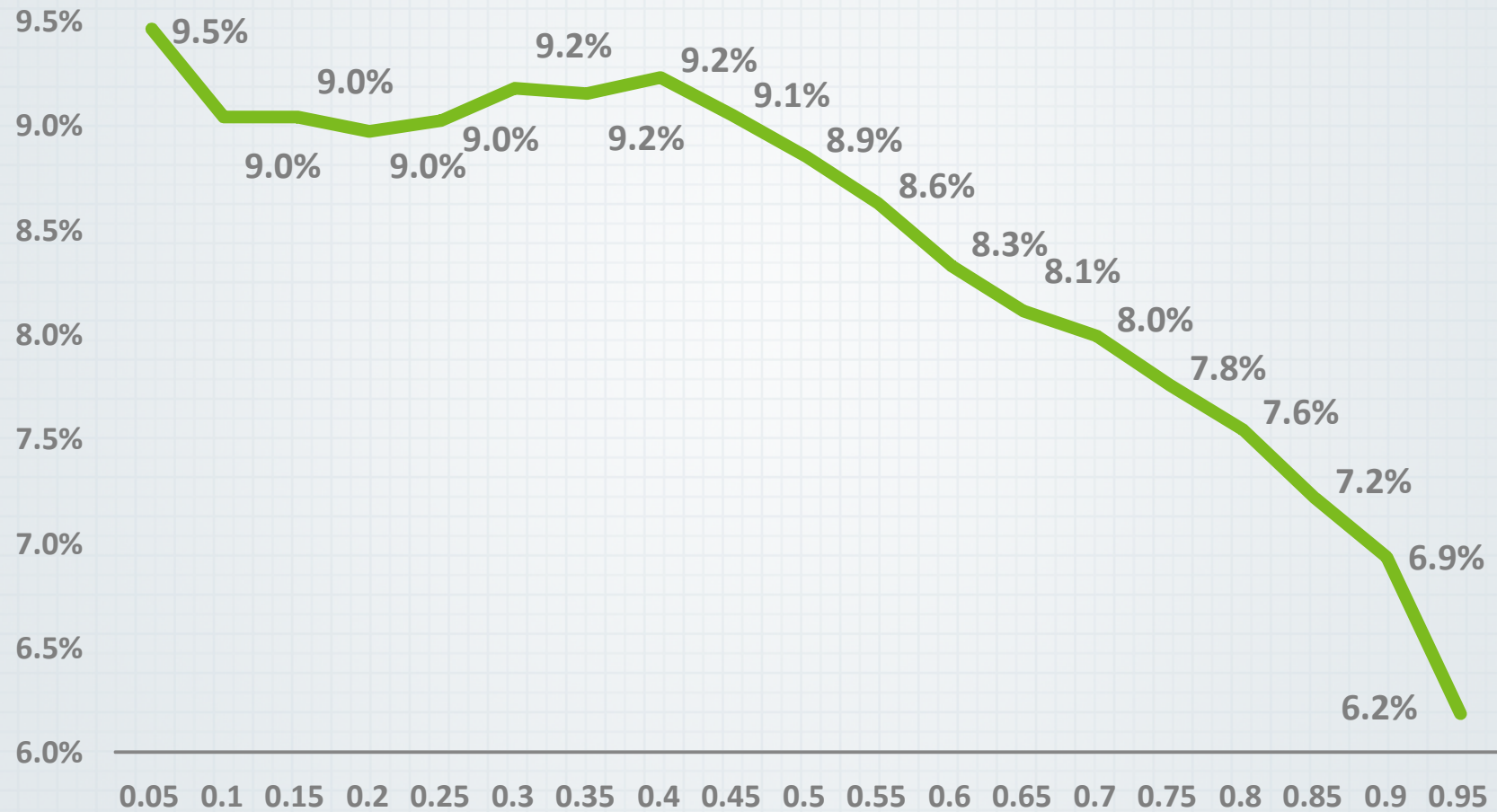
*Real Per Capita 2003 = 100*



Fonte: IPEA a partir dos microdados da PNAD/IBGE e das Contas Nacionais

# Growth Rates

Quantile Regressions - Cummulative Growth Rates from 2011 to 2013



Source: PME/IBGE microdata

# Polarization versus Inequality

**Example:** Society with six people: A, B, C, D, E & F, with respective incomes of

**R\$ 6, 5, 4, 3, 2 and 1.**

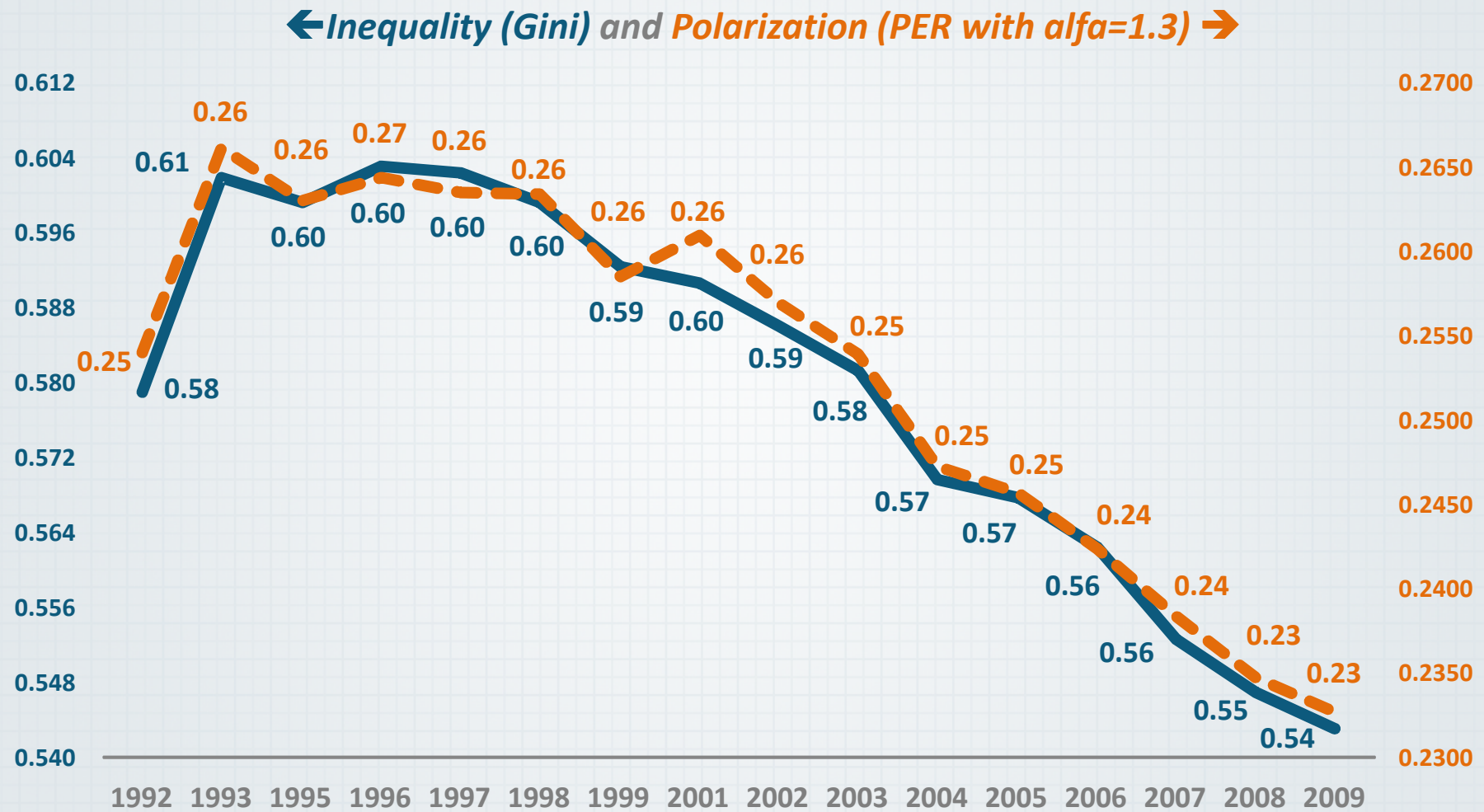
If R\$ 1 is transferred from A to C and from D to F .

Get a **divided society:**

**R\$ 5, 5, 5, 2, 2 and 2**

Although less unequal, after these progressive transfers, society has become more polarized.

# Polarization and Inequality



Source: PNAD/IBGE microdata

# Identification Within and Alienation Between Groups

- Cut income distribution in groups making internal differences within groups as small as possible & differences between groups as large as possible. (Theil decompositions spirit or more generally EGR)
- Initial 3 groups: **52,6 and 91 percentiles** in 2002-03
- **49 and 87 percentiles** in 2012
- Subdividing other groups following the same procedure plus institutional features (official poverty lines etc).
- Underreporting & Regional price level differences



# How Much Income **Inequality** is Explained by **Economic Classes**?

	<b>ECONOMIC CLASSES</b>	<b>GROUPS WITH EQUAL SIZES</b>
<b>PME 2002-2003</b>	<b>76.71%</b>	<b>59.34%</b>
<b>PNAD 2003</b>	<b>79.71%</b>	<b>59.91%</b>
<b>PNAD 2009</b>	<b>74.29%</b>	<b>57.96%</b>
<b>POF 2008-2009</b>	<b>71.40%</b>	<b>59.29%</b>

## Economic Classes Defined by Total Household Income (calculated originally in per capita terms) (R\$)

<b>Economic Classes</b>	<b>Lower Limit</b>	<b>Upper Limit</b>
Class E	0	1254
Class D	1254	2004
Class C	2004	8640
Class B	8640	11261
Class A	11261	0

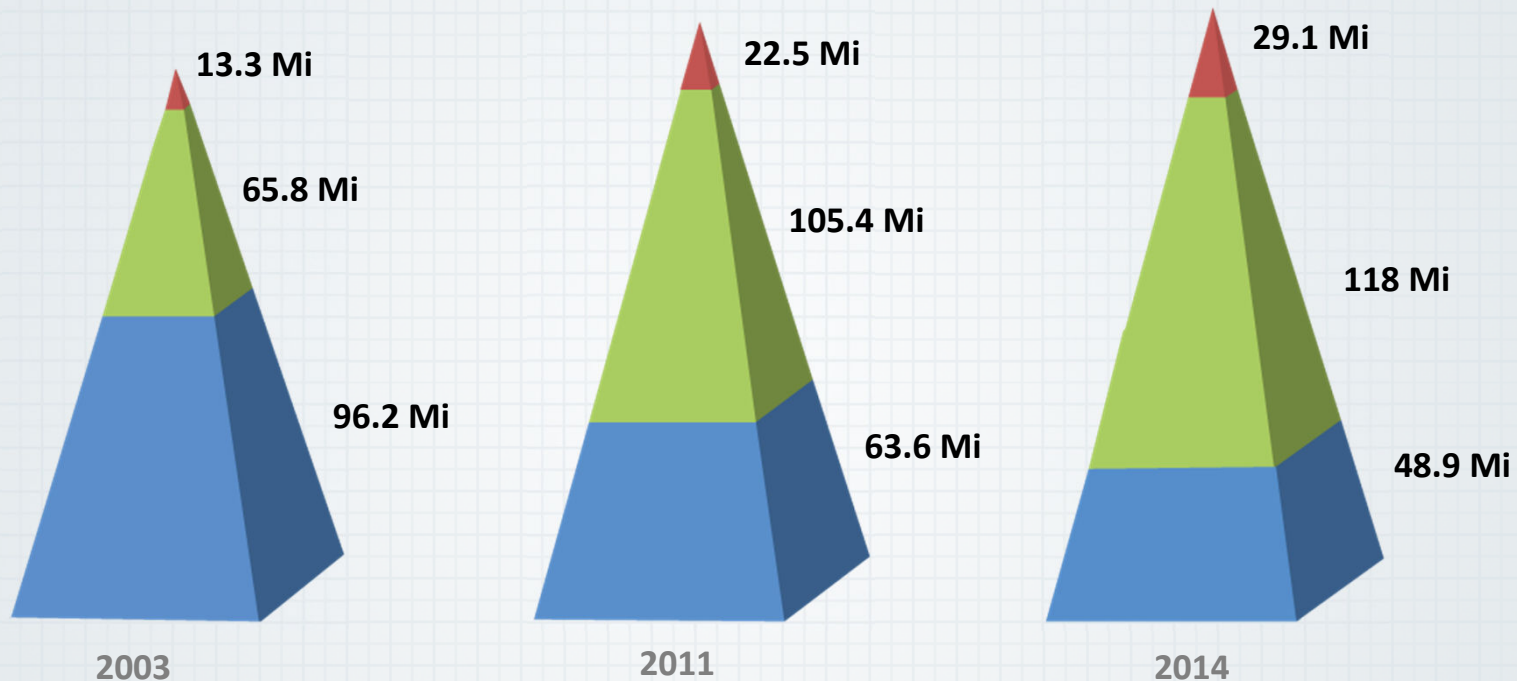
\* Adjusted by POF

\*\* in current R\$ January 2014 prices

Source: PNAD/IBGE and POF/IBGE microdata

# Population Pyramid and Economic Classes 2003, 2011 and 2014

- Class AB
- Class C
- Class DE

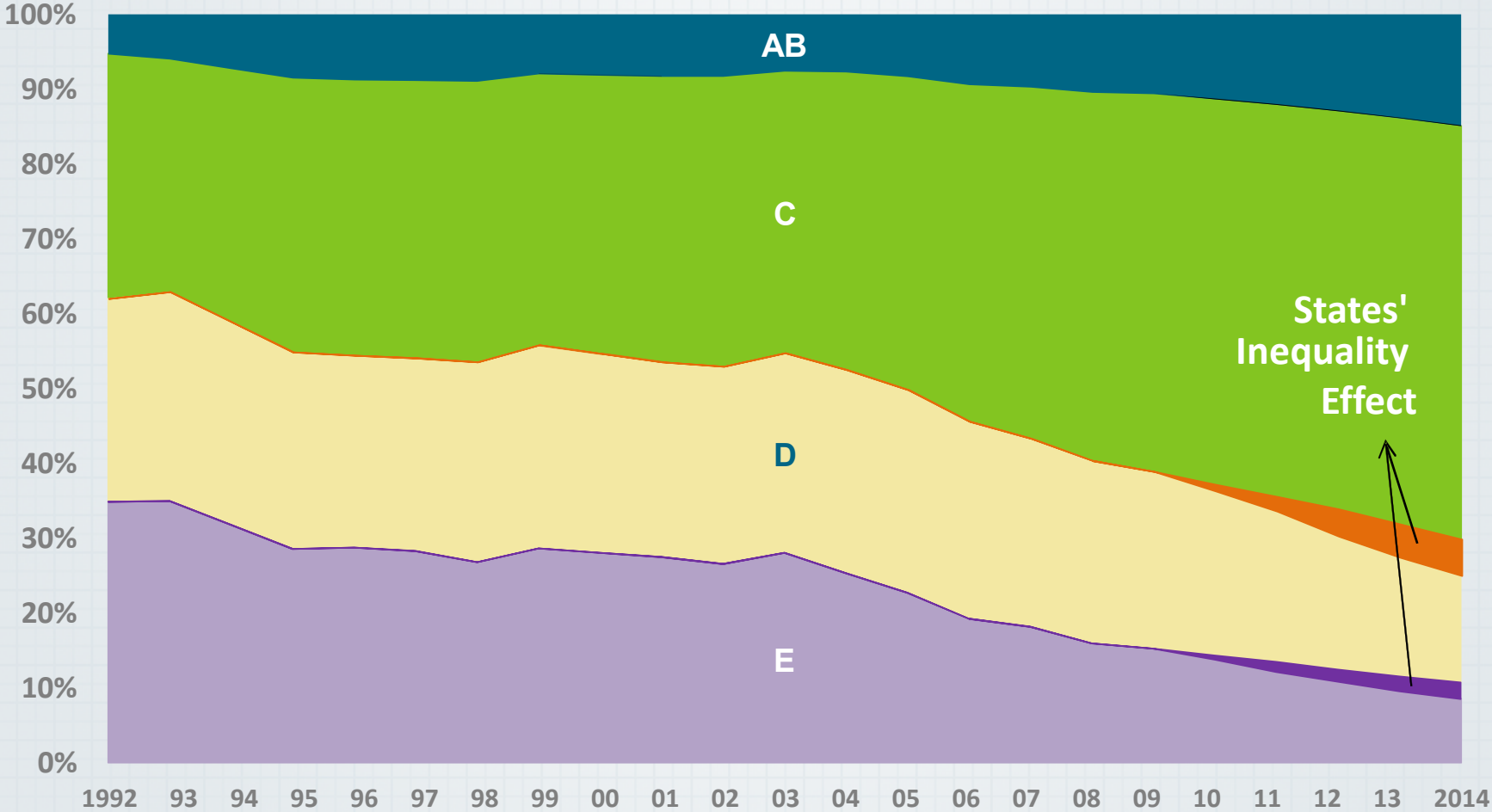


Changes in time: **Class C** + 40 million people 2003-11 and + 13 million 2012-14.  
**Classes AB** + 9.2 million people from 2003 to 2011 and + 7.7 million from 2012 to 2014.

The **AB** population will grow proportionally + than **C** : 29.3% and 11.9%, respectively.  
We will talk more and more in the future about a **new AB class**, just as we've been talking, until now, about a **new C class**.

# Inequality Effect

Class Composition 1992 to 2014\*

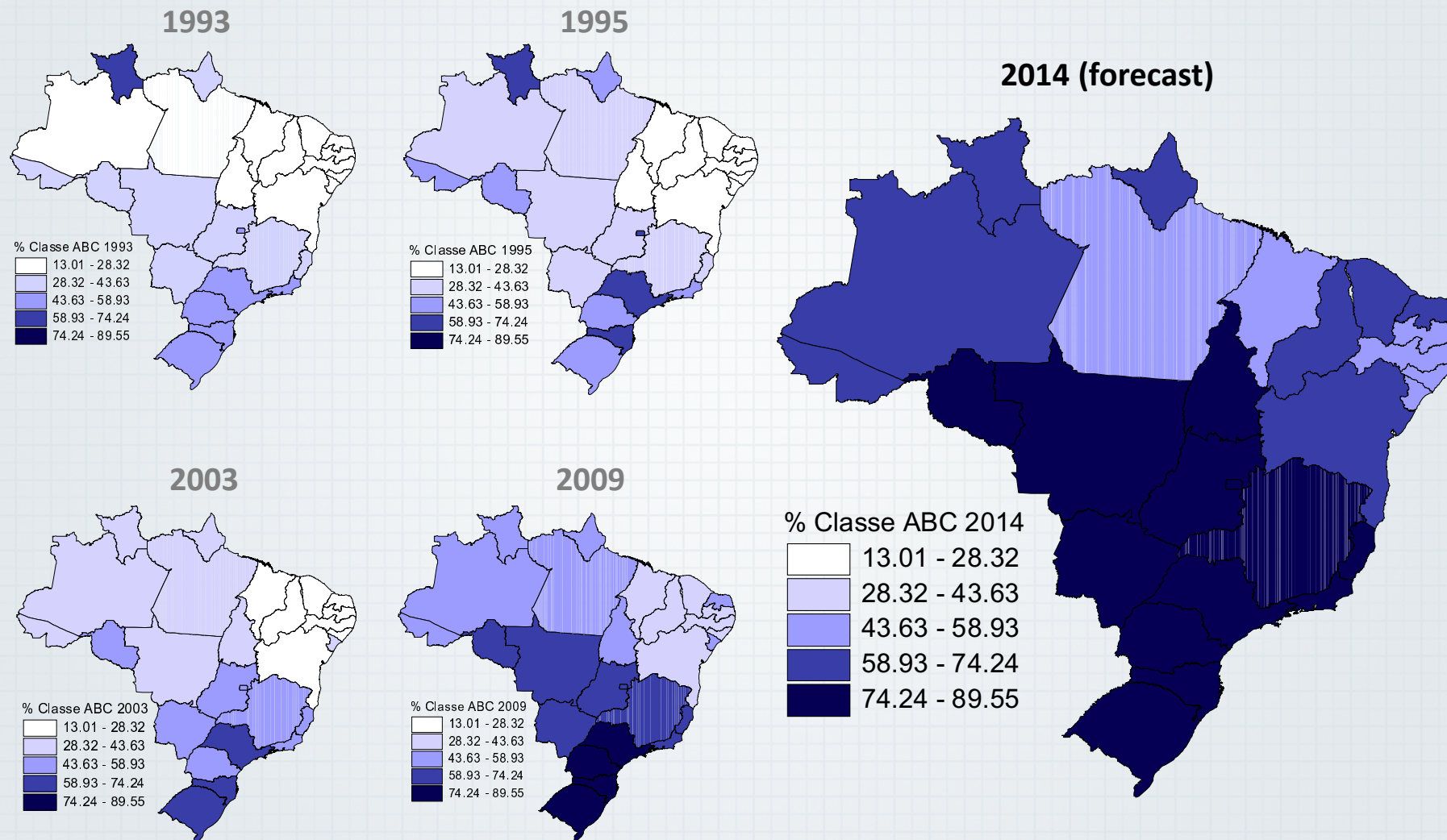


Source: PNAD/IBGE microdata

\*class growth forecasted from 2010 to 2014

# Evolution of Classes

## Evolution of Class ABC shares Brazilian State Maps



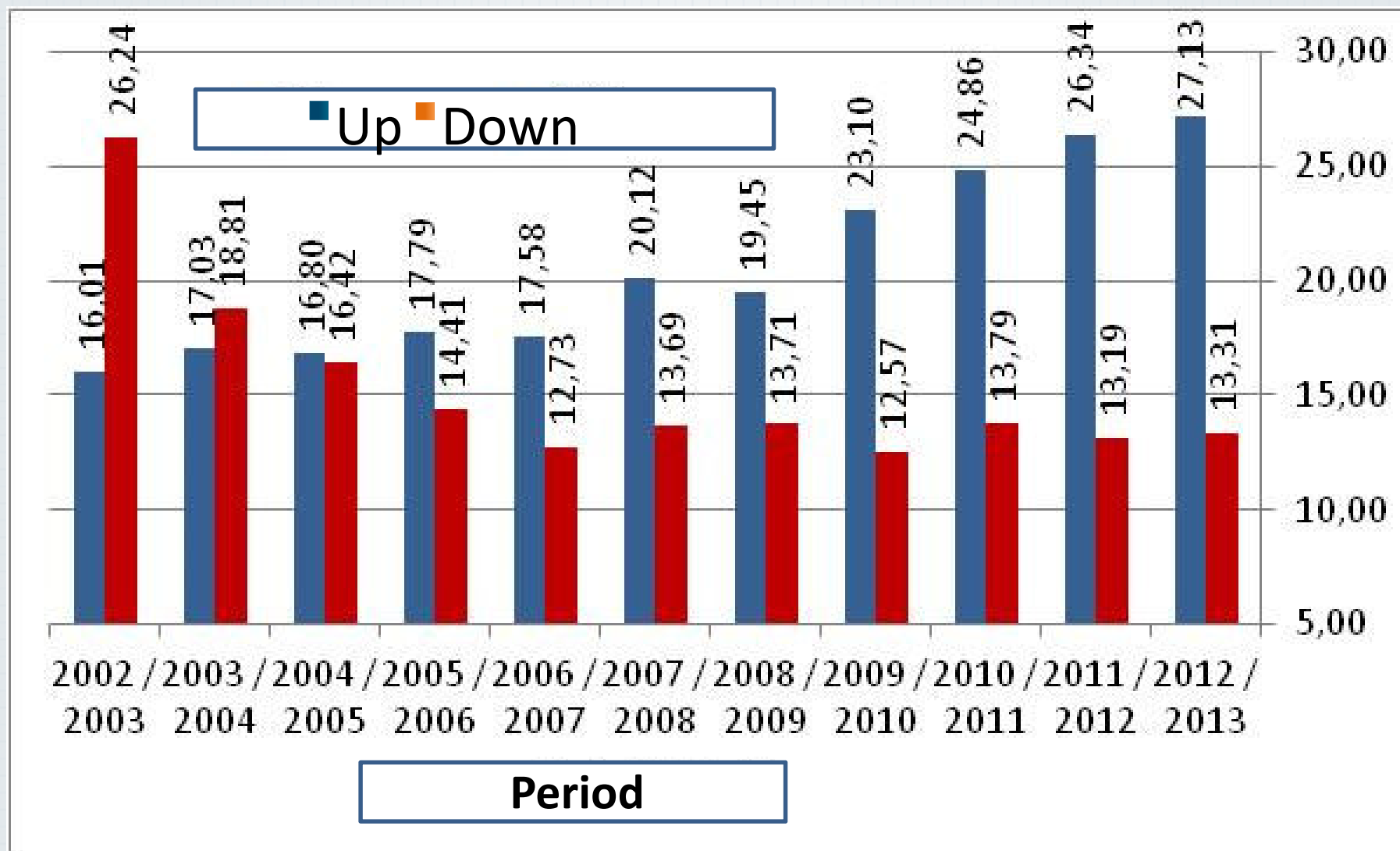
Source: PNAD/IBGE microdata

# **Consumers versus Producers: Sustainable or Not?**

The progress in the Brazilian ability to generate income increased, according to our index, 31.2 per cent from 2003 to 2009, and potential consumption increased 22.59 per cent. These data reveals that the producer's side increased 38 per cent faster than the consumer's.

# Sustainability: Earnings Risk

Probability of Transition to **Below**  
& to **Above the Median** (%)



Source: Ipea. from microdata by PME/IBGE.

# Public Services Quality and Individual Perceptions

## Perceptions of the Middle Class

Public Services and Standard of Living Perceptions by Economic Classes	Total Pop	Economic Class			
		Class E	Class D	Class C	Class AB
<b>Standard of Living Perceptions</b>					
Enough family income	21.70%	5.11%	10.58%	26.93%	58.20%
Always consumes type of food wanted	31.39%	9.83%	19.22%	38.99%	69.24%
Has special checking account	13.66%	0.97%	2.48%	13.18%	52.52%
Delay in debt payments	33.15%	43.25%	39.45%	29.30%	16.88%
Good overall housing conditions	49.25%	33.46%	39.86%	55.36%	75.78%
<b>Public Services Coverage and Perceived Quality</b>					
Good public transportation services	63.40%	59.81%	60.32%	64.84%	67.86%
No public transportation services	25.18%	45.98%	28.55%	17.76%	10.61%
Good educational services	68.96%	68.64%	66.94%	69.41%	72.76%
No education services	2.70%	2.61%	2.68%	2.70%	2.85%
Good health services	43.49%	39.58%	39.10%	44.70%	56.39%
No health services	4.03%	5.77%	4.58%	3.14%	3.31%
Good sewage services	77.48%	65.36%	71.20%	80.64%	86.11%
Not covered by sewage services	36.80%	61.98%	43.77%	27.57%	12.95%
Good quality of garbage collection services	86.09%	78.40%	82.61%	88.64%	92.79%
No garbage collection services	13.90%	33.24%	16.08%	7.05%	2.65%
Violence in the Neighborhood	31.07%	28.87%	33.08%	30.76%	31.44%

Source: POF/IBGE