

Defining and profiling the middle class

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The middle class is crucial in society. With better educational attainment and savings, middle-class workers hold critical roles in higher value-added sectors, particularly in services (Doepke and Zilibotti 2005, 2007). They are also willing to pay for better-quality products and services, and their demands encourage investments in production and marketing, raising general income levels (Murphy et al. 1989).

The middle class is also key to enhancing human capital given their large investments in education and health care (Banerjee and Duflo 2008; Albert et al. 2015). They also play a role in the improvements in public services, not only as a source of public revenues via taxes but also as agents of change (Huntington 1991).

In *AmBisyon Natin 2040*, Filipinos have articulated a long-term goal to “live in a prosperous, predominantly middle-class society where no one is poor” (NEDA 2016, p. 3). This *Policy Note* profiles middle-class persons and families in the Philippines. It also examines the country’s progress in achieving long-term objectives of a largely middle-class society.

The middle class

Just as there is no universally accepted definition of poverty, there is also no internationally accepted definition of the middle class (Joliffe and Prydz 2016). Among social scientists, definitions of the middle class vary widely. Birdsall (2010) defined middle class through nonmonetary lenses, such as profession, education, or social values. Meanwhile, economists tend to define the middle class through monetary lens. Even among them, however, there is no consensus on a definition. Some studies defined middle income in an absolute sense, such as an income range at purchasing power parity, while others use a relative sense, such as thresholds based on the average income (Albert et al. 2015).

Modifying slightly the work of Albert et al. (2015), which defined seven clusters of the income distribution using thresholds based on multiples of the official poverty line, this study grouped the seven clusters into three income classes in such a way that the two lowest clusters form the low-income class, the two highest clusters form the high-income class, while the three middle clusters form the middle-income class (Table 1).

Table 1. Indicative range of monthly family incomes (for a family of 5): Philippines, 2015 and 2017

Income Cluster	Definition: Per-Capita Income	Indicative Range	
		at 2015 prices	at 2017 prices
1. Poor	Less than official poverty threshold	Less than PHP 9,100	Less than PHP 9,520
2. Low-income class (but not poor)	Between the poverty line and twice the poverty line	Between PHP 9,100 and PHP 18,200	Between PHP 9,520 and PHP 19,040
3. Lower middle-income class	Between two and four times the poverty line	Between PHP 18,200 and PHP 36,400	Between PHP 19,040 and PHP 38,080
4. Middle middle-income class	Between four and seven times the poverty line	Between PHP 36,400 and PHP 63,700	Between PHP 38,080 and PHP 66,640
5. Upper middle-income class	Between 7 and 12 times the poverty line	Between PHP 63,700 and PHP 109,200	Between PHP 66,640 and PHP 114,240
6. Upper-income class (but not rich)	Between 12 and 20 times the poverty line	Between PHP 109,200 and PHP 182,000	Between PHP 114,240 and PHP 190,400
7. Rich	At least equal to 20 times the poverty line	At least PHP 182,000	At least PHP 190,400

Source: Authors' calculations based on *2015 and 2017 Family Income and Expenditure Surveys* (FIES) (PSA 2015a, 2017)

In other words, those belonging to the middle-income class are families (or persons belonging to families) that have incomes between 2 and 12 times the poverty line. In 2017, a family of five would thus be middle income if its monthly income ranged roughly between PHP 20,000 and PHP 115,000.

Making use of data sourced from the *Family Income and Expenditure Survey* (FIES), conducted by the Philippine Statistics Authority, this study described the middle-income class relative to low- and high-income classes in terms of place of residence, work status and occupation, educational attainment, schooling decisions, housing tenure, access to water, and overseas employment.

According to latest data from the FIES (PSA 2015a), about 2 in every 5 (40.2%) Filipinos belonged to middle-income class, nearly three-fifths (58.4%) to low-income, and the remaining (1.4%) to high-income. Such shares of the income classes hardly changed since 2006 (Figure 1). In terms of households, less than half (45.1%) were middle income in 2015, while a bigger proportion (52.8%) belonged to low-income class.

Place of residence

Urban dwellers are predominantly middle income. In 2015, 3 in 5 urban residents were middle income, while only 1 in 20 was high income. Among rural households, only a third were middle income, while more than three-fifths were low income.

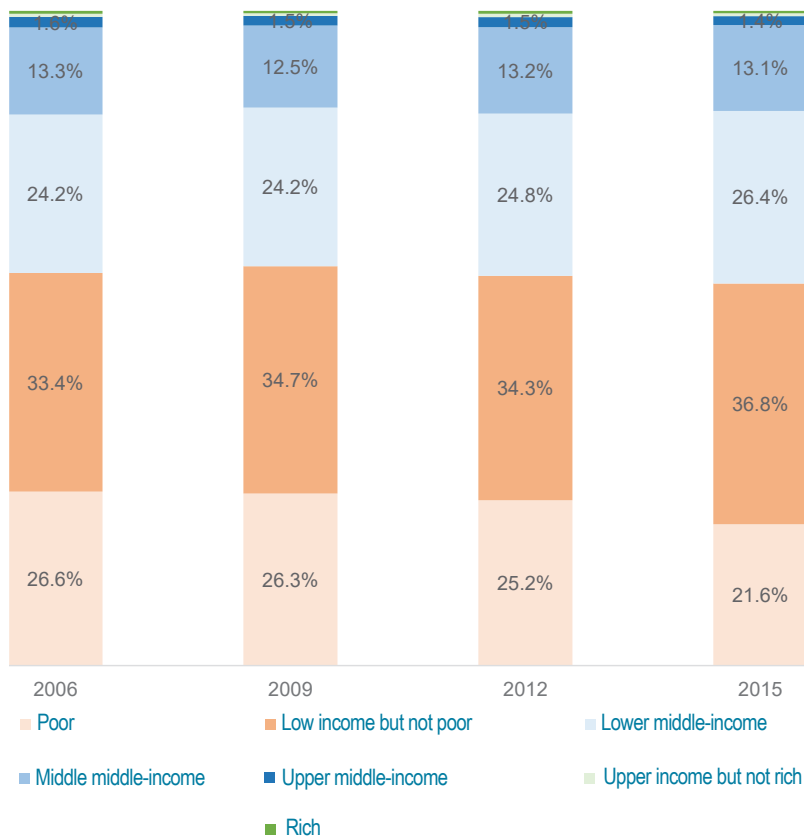
Among the regions, it is in National Capital Region, Central Luzon, and CALABARZON where the middle class dominantly reside. In 2015, more than half of them lived in these areas. As these areas have wide access to commercial and manufacturing establishments, most of the middle class also work in these regions.

Employment

Merged data from the Labor Force Survey (LFS) and FIES (PSA 2015a, 2015b) showed that the members of the middle-income households were working outside the agriculture sector. In fact, only 11 percent of them depended on agriculture, most of whom belonged to the lower middle-income cluster.

A quarter of the middle income worked in wholesale and retail trade, with jobs such as vegetable vendors or *sari-sari* store owners. Nearly a fifth (17%) were

Figure 1. Population distribution, by income cluster: Philippines, 2006–2015



Source: Authors' calculations based on 2006, 2009, 2012, and 2015 FIES (NSO 2006, 2009, 2012; PSA 2015a)

in transport, communication, and storage, usually working as tricycle and jeep drivers or bus conductors. Meanwhile, about 16 percent worked in government, mostly as clerks or public school teachers.

The middle-income class is also not into vulnerable employment. In 2015, more than 6 in every 10 of the employed middle income were in salaried work. Around three-fourths also had permanent jobs.

Middle-income workers are largely not entrepreneurial. As of 2015, the share of middle-income workers as self-employed (23%) was lower than that of the low income (30%). Moreover, only 4 percent of middle-income workers were employers, compared to 12 percent among the high income.

Education

Educational attainment correlates with income (Table 2). In 2015, half of middle-income persons aged 24 years and above attained education beyond secondary education. While this figure was lower than that of the high income (78%), it was higher than the corresponding proportion for low income (13%).

As of 2015, only a quarter (23%) of the lower middle income finished college. Nonetheless, this figure was higher among middle and upper middle income at 47 percent and 62 percent, respectively. Meanwhile, a majority (59%) of the low income did not finish high school given high immediate economic needs particularly among the poor.

Merged FIES-LFS data (PSA 2015a, 2015b) also showed that increased school participation rates were associated with higher-income levels. In 2015, the

school attendance rate of children aged 5–14 years from middle-income families was 93 percent, higher by 6-percentage points than low-income counterparts. The average spending on education of middle-income households was also six times more, in nominal terms, and twice in share to overall household expenditures compared to low-income households.

Housing tenure

Middle-income households tend to own their dwellings. In 2015, about 3 in every 4 (74%) middle-income households resided in dwellings that they own. Meanwhile, 23 percent rented and 3 percent were informal settlers. In this study, informal settlers are those residing in a house or lot without consent of the owner.

Table 2. Educational attainment of Filipinos aged 24 years and over by income classes (in %)

Highest Grade Completed	Low Income	Middle Income	High Income	Total
At most primary	43.7	15.9	5.3	30.0
At most, some secondary	42.9	35.4	16.4	38.8
Beyond secondary	13.4	48.8	78.2	31.2

Source: Authors' calculations on 2015 FIES and 2015 Labor Force Survey (PSA 2015a, 2015b)

In Metro Manila, tenure status is different from the rest of the country. While three-fifths (58%) of middle-income residents in Metro Manila lived in their own homes, a third (35%) rented houses, and a tenth (7%) were informal settlers.

While a relatively small proportion of middle-income households live as informal settlers, they constitute a big proportion of informal settlers nationwide. In 2015, 2 in every 5 (42%) informal settlers belonged to the middle-income class, while the remaining (58%) were from the low-income class. In Metro Manila alone, roughly 7 in every 10 (69%) informal settlers belonged to the middle-income class in 2015, which is contrary to the conventional view that informal settlers in urban areas are the urban poor. Middle-income informal settlement has also been observed in some countries with a shortage of affordable housing in urban areas (Turok 2015; Ellis and Roberts 2016).

Access to water

Middle-income households have better access to safe and clean water than low-income counterparts. Around 5 in every 7 middle-income households used water from the community water system; in contrast, around 60 percent of the low-income households relied on ground and surface water, considered potential sources of contamination from microbes and chemicals (WHO 2006).

Low access to safe water services among the low income is associated with where they live. In rural

areas, access to community water system was very low at only 41 percent in 2015. In some regions, a majority of the middle income still used ground water. These include the Autonomous Region in Muslim Mindanao (69%) and the Cordillera Administrative Region (56%).

Overseas Filipino workers and remittances

About 13 percent of middle-income households had a member working as an overseas Filipino worker (OFW). Upper middle-income (18%) households were also more likely to have members working as OFWs than the middle (16%) and lower (11%) middle-income clusters. In contrast, less than 4 percent of low-income households had members working as OFWs. Nonetheless, the distribution of the OFWs shows that they were predominantly middle income (73%), with more than a third belonging to the lower, a quarter to middle, and only 11 percent to upper middle-income households.

Remittances contribute substantially to household income among middle-income recipients. In 2015, 1 in every 3 middle-income households, largely from the lower middle-income cluster, received foreign remittances. Of this figure, 45 percent received remittances covering at least 25 percent of the entire household income, while one-fifths sourced the majority of household income from remittances.

Transitioning from low income to middle income

Following Morduch (1998), this study examined how long it takes for the low-income class to transition to middle-income status assuming that per-capita income grows annually at a constant rate. To adjust for differences in cost of living across the country, the study also applied a spatial price index¹ to the per-capita income of each household.

¹ Based on the official poverty lines estimated across urban and rural areas in each province

Simulation results indicated that if real income per capita grows by 2.4 percent² per year, the average transition time for the low-income class to become middle class would be 18 years³ (Figure 2). While the low-income but not poor cluster can transition to middle income by 2023, the poor, on average, can only do so by 2051. For the poor to transition to middle income by 2040, their income should grow annually by 3.4 percent, or 42 percent more than the benchmark 2.4 percent, which is deemed unrealistic especially given that income distribution was unchanged from 2006 to 2012.

Recommendations

Based on the definition used in this study, the middle-income households in the country have substantially better access to health, education, and other services than their low-income counterparts. They also largely live in urban areas, especially Greater Manila areas, which have ease of access to various services and private establishments.

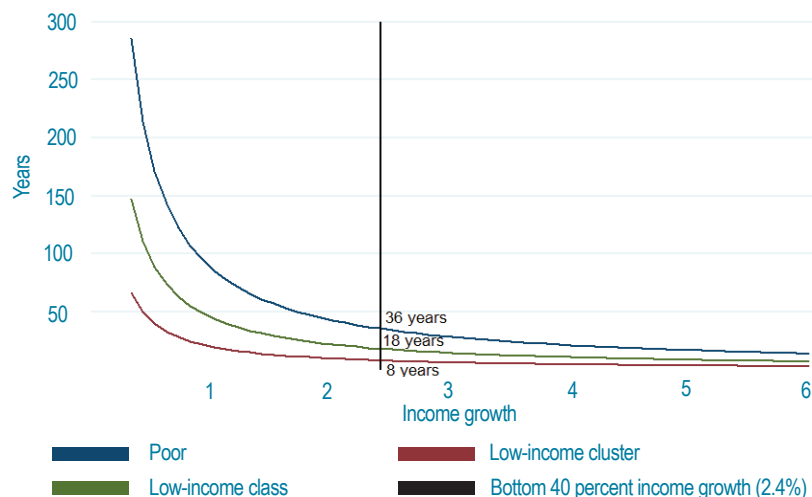
Compared to those in the low-income class, middle class have higher educational attainment and put high value on human capital development. They likewise tend to be employed in stable jobs outside agriculture. Nonetheless, these do not make the middle class strongly resilient to risks.

Middle-income households in rural areas and certain regions remain to have low access to social services. Those with relatives working overseas, especially among those in the lower middle-income cluster,

² The estimated growth rate of the bottom 40 percent in the period 2009–2015

³ Under the assumption that the growth rate will be continuous and uniform across the low-income population

Figure 2. Number of years to transition into lower middle-income



Source: Authors' calculations

may be vulnerable to falling into poverty if the OFW member loses his/her job as remittances cover a substantial proportion of the household income.

In urban areas, those in informal settlements, including the middle class, face difficulties in access to affordable housing. Families among the low income but not poor, together with those in the lower middle-income cluster, are far more vulnerable to income poverty than others in higher-income clusters and will thus require support for improving resilience to risks. Government will need to reexamine its social protection policies and recognize that while the poor is most vulnerable to future poverty, even the middle class is vulnerable (Albert and Vizmanos 2018). Transfers to the poor and vulnerable, e.g., unconditional cash grants in the wake of tax reform, also cannot be one-size-fits-all but should account for differing risks and vulnerabilities.

Ensuring availability and sustainable management of safe water and safe sanitation for all can be achieved by expanding access to community water systems. For cities to be more inclusive, safe, smart, resilient, and sustainable, the government should considerably

improve access to affordable housing. In the wake of risks of job losses from automation, social protection measures are also important, especially for middle-income households relying on OFW remittances (Albert et al. 2018). These steps to manage risks and resilience are aligned with the country's commitment to attaining the Sustainable Development Goals to ensure that divides that separate the low-, middle-, and high-income classes will not get any wider. 📖

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