



New Wealth Creation for Expanding and Transforming the Middle-Class in the Philippines

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Outline

1. Introduction:

- Who is middle- (income) class ?
- Where do the middle class reside?

2. How do the middle class live?

- Demographics
- Income sources
- Expenditures
- Education attainment and Children's education
- Labor and employment
- Assets and Amenities

3. Can Growth of Middle Class Be Sustained?

1. Introduction

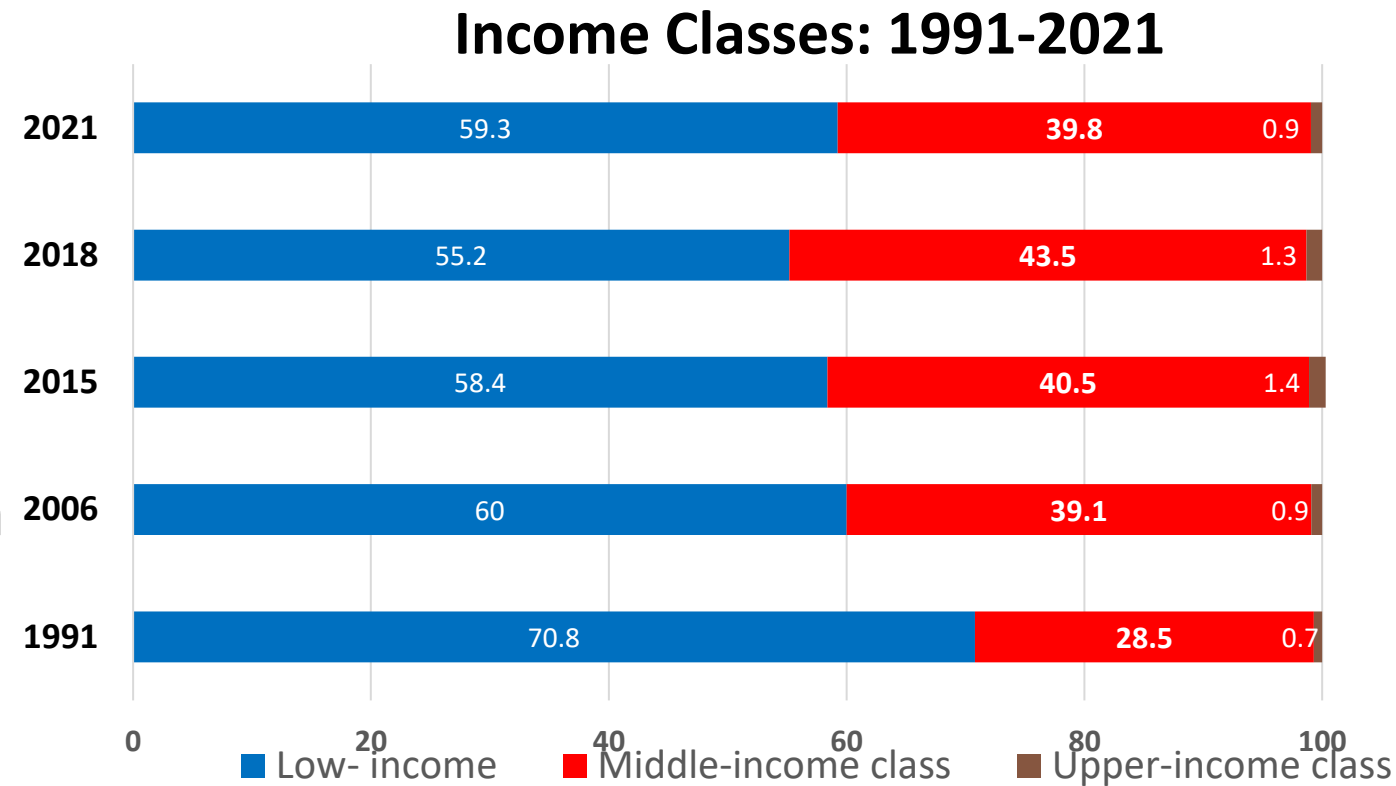
- In AMBISYON 2040, the Philippines articulated its aspiration to become a predominantly middle-class society by 2040
- Importance of middle-class for economic growth, stability and sustainable development
- Definitions of “middle class”:
 - income or expenditure data with **absolute thresholds** (Milanovic and Yitzhaki 2002; Banerjee and Duflo 2008; Ravallion 2009; ADB 2010) at purchasing power parity prices (e.g. \$2-\$10 PPP; \$10-100 PPP; \$2-\$20 PPP) or **relative thresholds** based on average or median income (Easterly 2001; Foster and Wolfson 2009; Birdsall 2010)
 - **non-monetary metrics** (McEwan et al. 2015; Southall 2016; Neubert and Stoll 2018; Spronk 2012; Melber 2013).

1.1. Income classes, Indicative monthly family income and size of income class (families & persons) as of 2021

Income class	Income cluster	Definition: Per capita income	Indicative Range of Monthly Family Incomes (for a Family Size of 5 members) at 2021 prices	Estimated Size in thousands (and in % of Total)	
				Families	Persons
Low income	Poor	less than official poverty threshold	Less than PhP 12,030 per month	3,592 (13.6)	20,431 (18.3)
	Low income (but not poor)	between the poverty line and twice the poverty line	Between PhP 12,030 to PhP 24,060 per month	9,907 (37.5)	45,617 (40.9)
Middle income	Lower middle income	between two- and four-times the poverty line	Between PhP 24,060 to PhP 48,120 per month	8,305 (31.5)	31,122 (27.9)
	Middle middle income class	between four- and seven-times the poverty line	Between PhP 48,120 to PhP 84,210 per month	3,104 (11.8)	10,003 (9.0)
	Upper middle income	between seven- and twelve- times the poverty line	Between PhP 84,210 to PhP 144,360 per month	1,087 (4.1)	3,238 (2.9)
High income	Upper income (but not rich)	between twelve- and twenty times the poverty line	Between PhP 144,360 to PhP 240,600	288 (1.1)	747 (0.7)
	Rich	at least equal to twenty times the poverty line	At least PhP 240,600	115 (0.4)	301 (0.3)

1.2. Size and growth of the middle-class :1991 to 2021

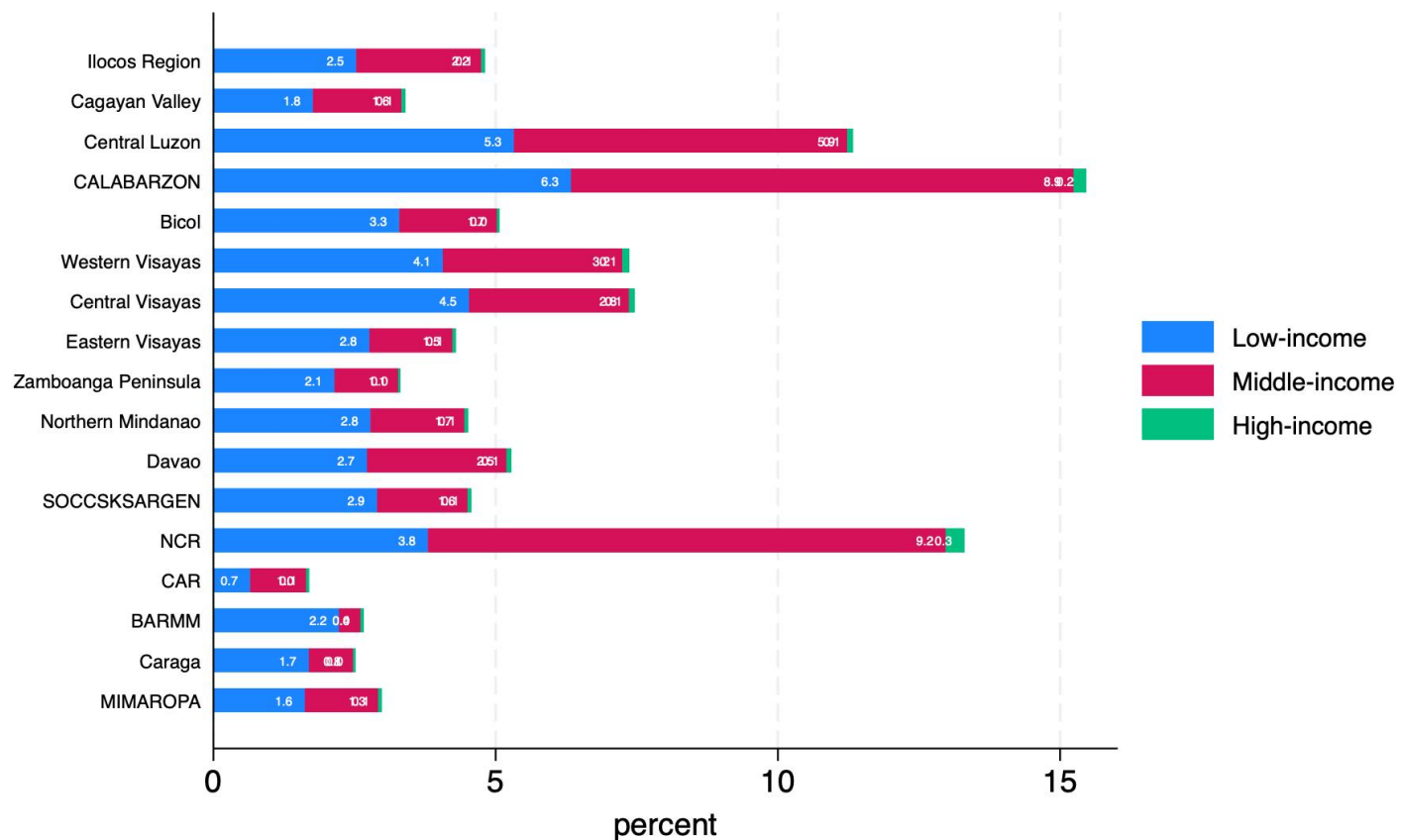
- From 1991 to 2018, the share of Filipinos in middle-income class grew from 28.5% to 43.5%.
- Compared to 2018, the share of middle-income Filipinos slightly reduced in 2021 to 39.8% (which is nearly the same level as in 2015).



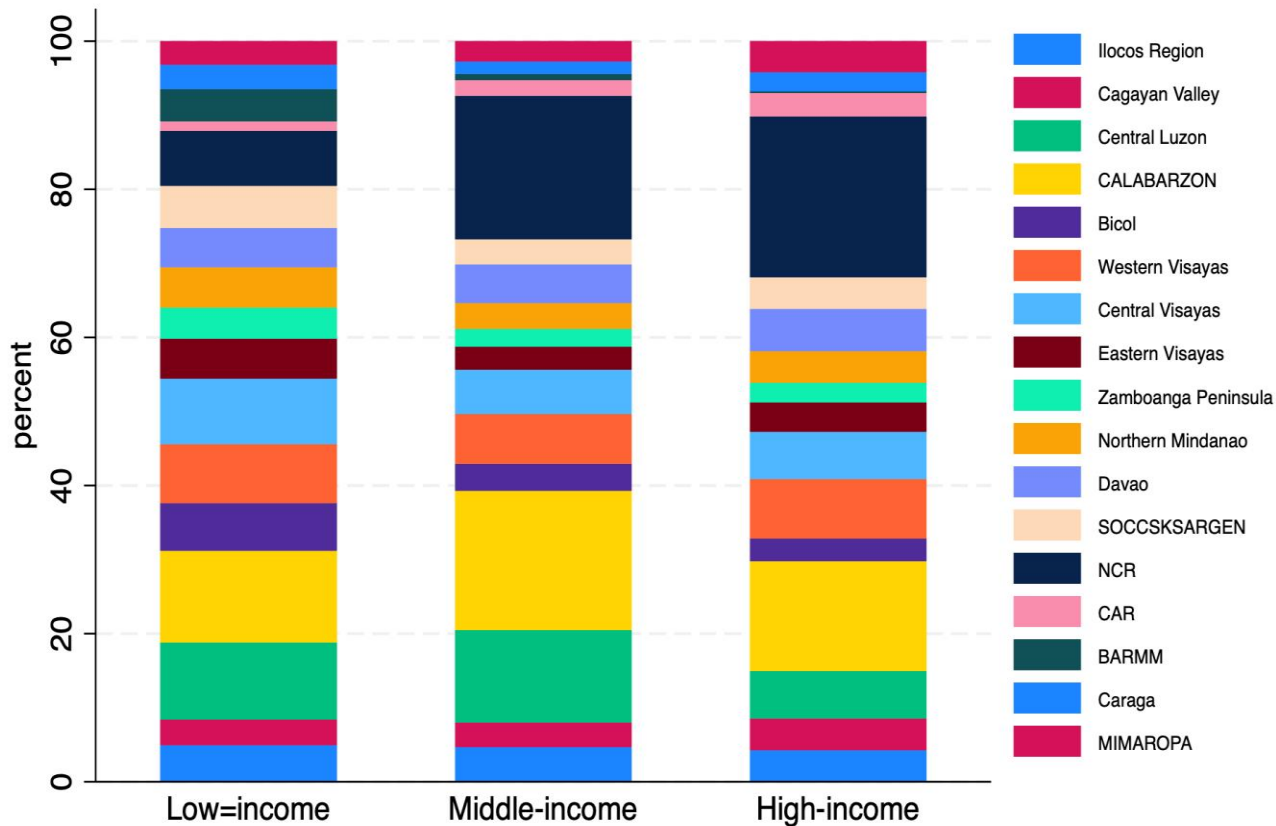
CAVEAT: Wealthy households underreport income and can be uncovered in household surveys. (Albert and Vizmanos, 2017) These estimates may thus underestimate size of high income households.

1.3. Geographic distribution of the low- middle_ and high-income class across regions

- As of 2021, in most regions low-income Filipinos are the majority
 - Only exceptions are NCR, CAR and CALABARZON, where only 36.7%, 46.1 and 49.6% are low-income
- In NCR, three out of five persons (62.0%) are from middle-income class, while in CAR, half (50.9%) belong to middle-income. Meanwhile, CALABARZON has same share of low- (49.6%) and middle-income classes (49.5%).

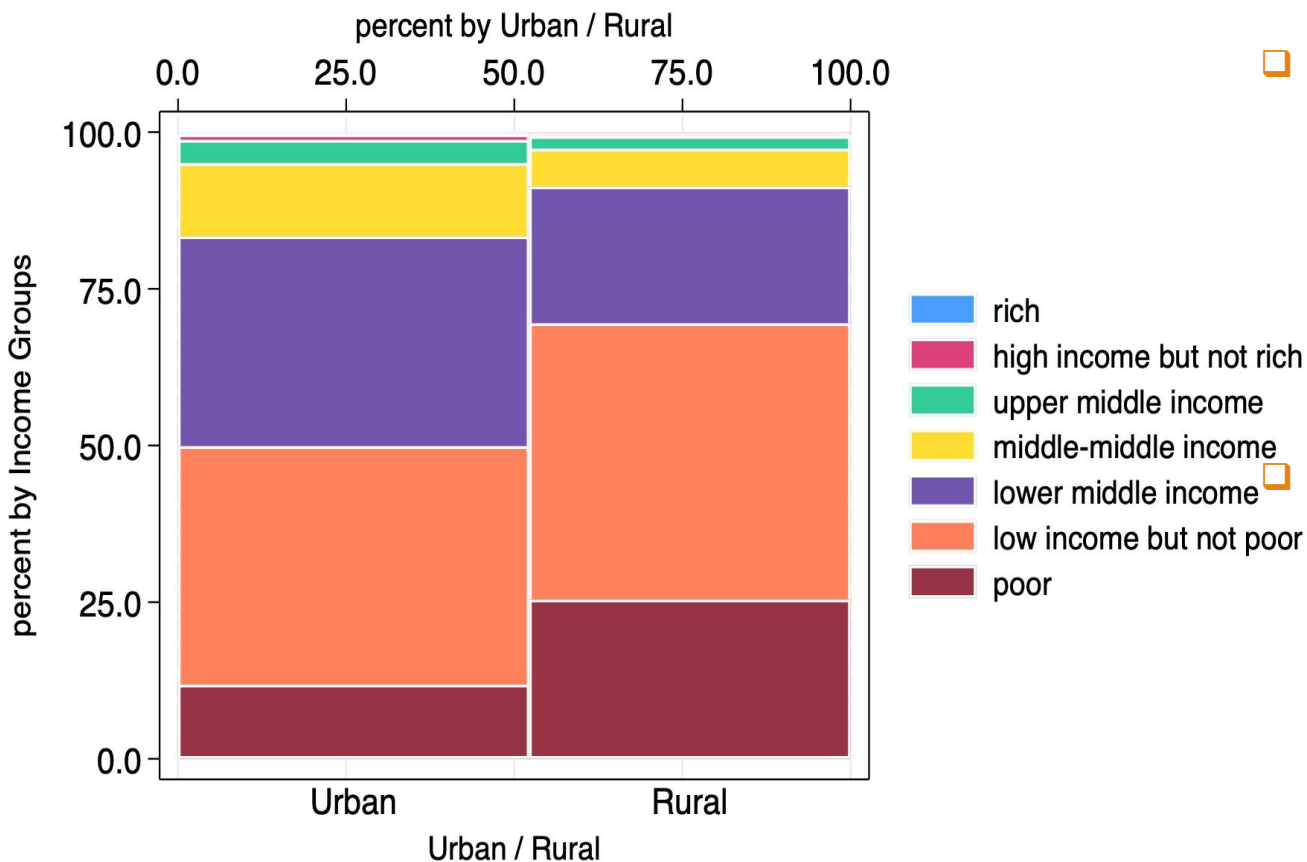


1.4. CALABARZON has highest share of low-income class, while NCR with highest share of middle- and high-income classes among regions



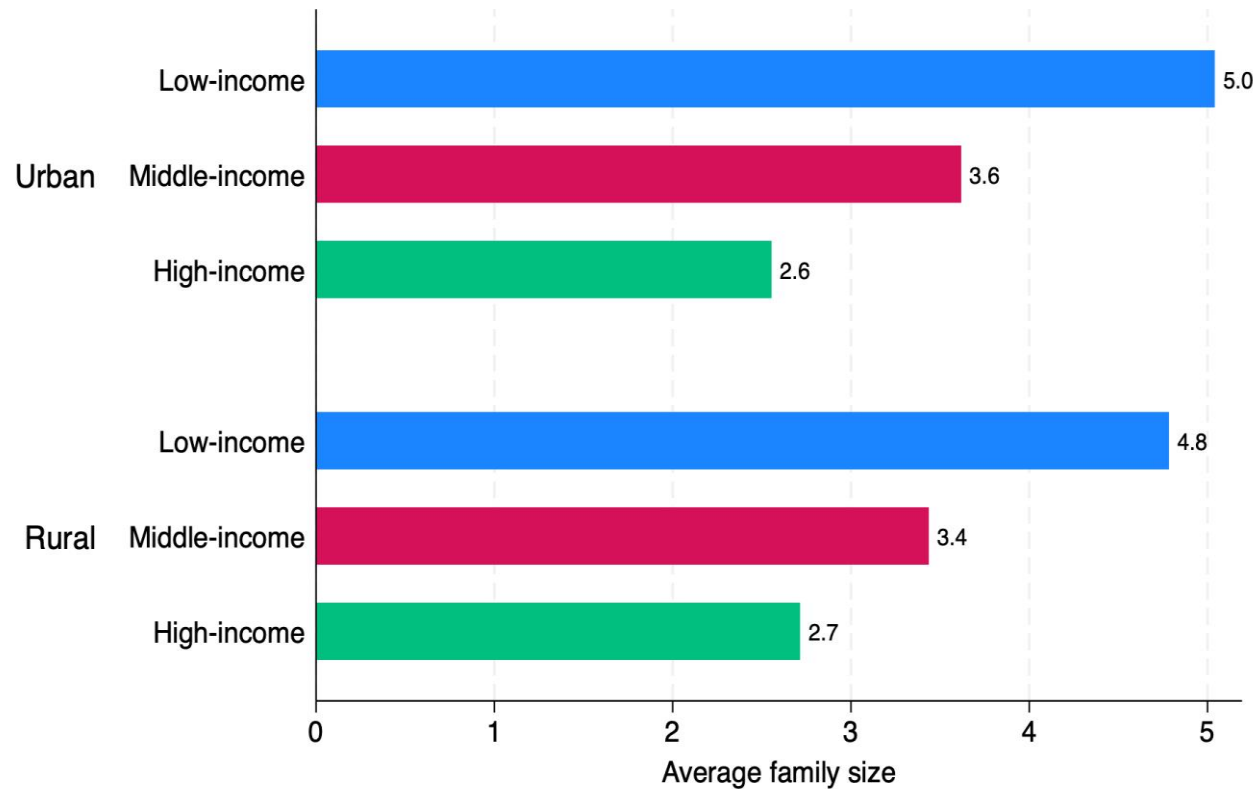
- As of 2021, three fifths (59.3%) of Pinoys with low-income (below twice the official poverty line)
 - Regions with highest shares of low-income class are CALABARZON, Central Luzon, Central Visayas, which together, contribute 22.4% to total low-income Pinoys
- In contrast, of the 39.8% in middle-income class
 - Most are in NCR, CALABARZON, Central Luzon, which contribute 51.8% to total middle-income Pinoys.
- Remaining 0.9% with high income (at least 20 times poverty line)
 - Most in NCR, CALABARZON, Central Visayas, which contribute 40.4% to total high-income Pinoys.

1.5. Both rural and urban areas dominated by low-income but not poor in 2021



- ▣ Rural areas: among income groups, low-income but not poor has highest share (44.1%), then the poor (24.5%)
- ▣ Like in 2018 : rural dominated by low income but not poor (43.3%)
- Urban areas: low-income but not poor also dominate (38.0%), then lower middle class (33.5%).**
 - This is unlike In 2018, lower middle class had highest share (36.0%),

2. Characteristics of Middle-(Income) Class



Demographics: family size

- As of 2021, average family sizes are 4.2, but among middle-income class, family size averages 3.6.
- In contrast, low-income classes in urban areas have a family size of 5.0, on average, while high-income classes have an average family size of 2.6.

2. Characteristics of Middle-(Income) Class

Distribution of Households by Demographic Typology and by Income Group: 2021

Demographic Typology	Low-Income	Middle-Income	Upper-Income	All Income Groups
One adult, female - no children	0.04	0.49	2.94	0.25
One adult, female - with children	1.21	1.06	0.47	1.14
One adult, male - no children	0.13	1.33	3.95	0.65
One adult, male - with children	1.01	0.70	0.23	0.88
Adult couple - no children	0.54	3.11	5.95	1.63
Adult couple - with children	30.85	17.68	10.49	25.36
Adult couple - with children and other adults	31.48	23.22	15.84	28.00
Multiple adults - no children	3.47	11.86	14.18	6.94
Multiple adults, only female - with children	0.85	0.98	0.58	0.90
Multiple adults, only male - with children	0.44	0.35	0.04	0.40
Other adult combinations - no children*	5.43	14.20	22.62	9.12
Other adult combinations - with children**	22.00	20.68	14.75	21.40
Senior(s) only - no children	1.26	3.42	7.09	2.19
Senior(s) only - with children	1.28	0.89	0.83	1.12
No adults, children only	0.01	0.01	0.04	0.01
Total	100.00	100.00	100.00	100.00

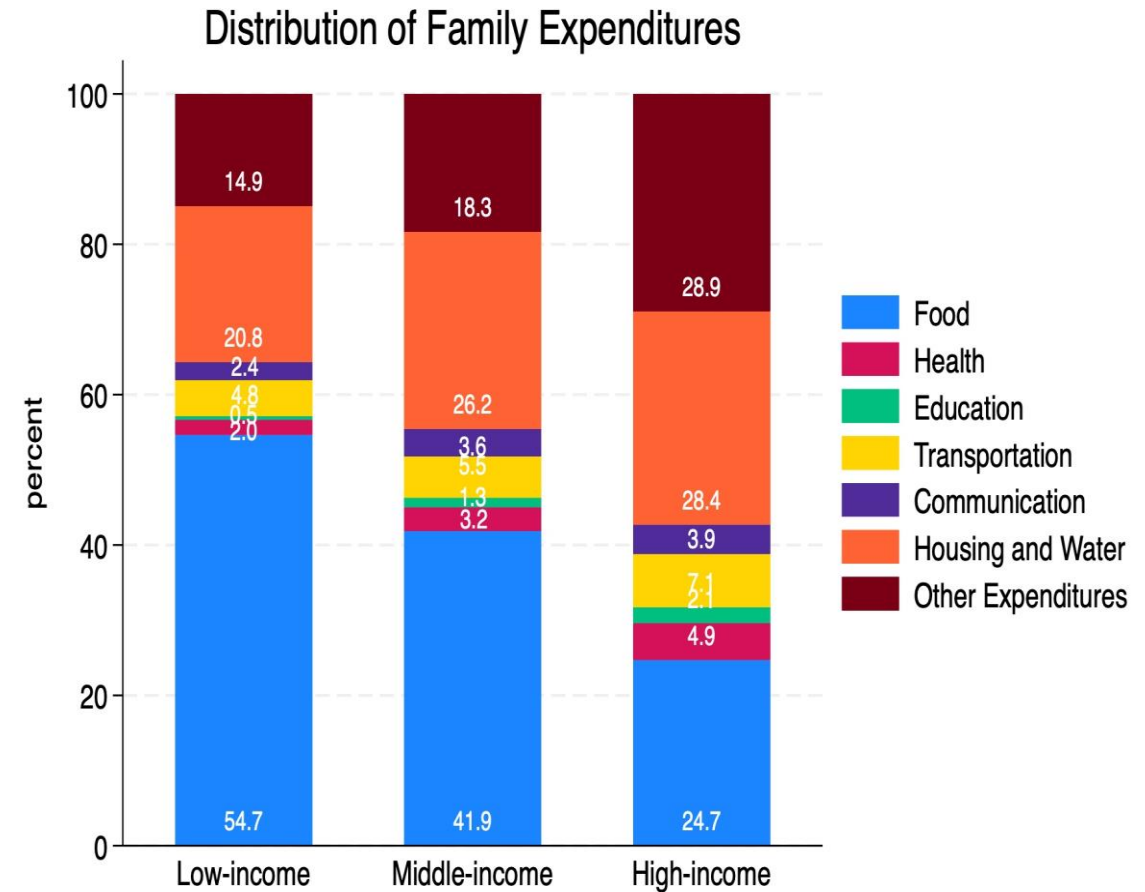
Notes:
Authors' calculations from 2021 FIES

Demographics: household types

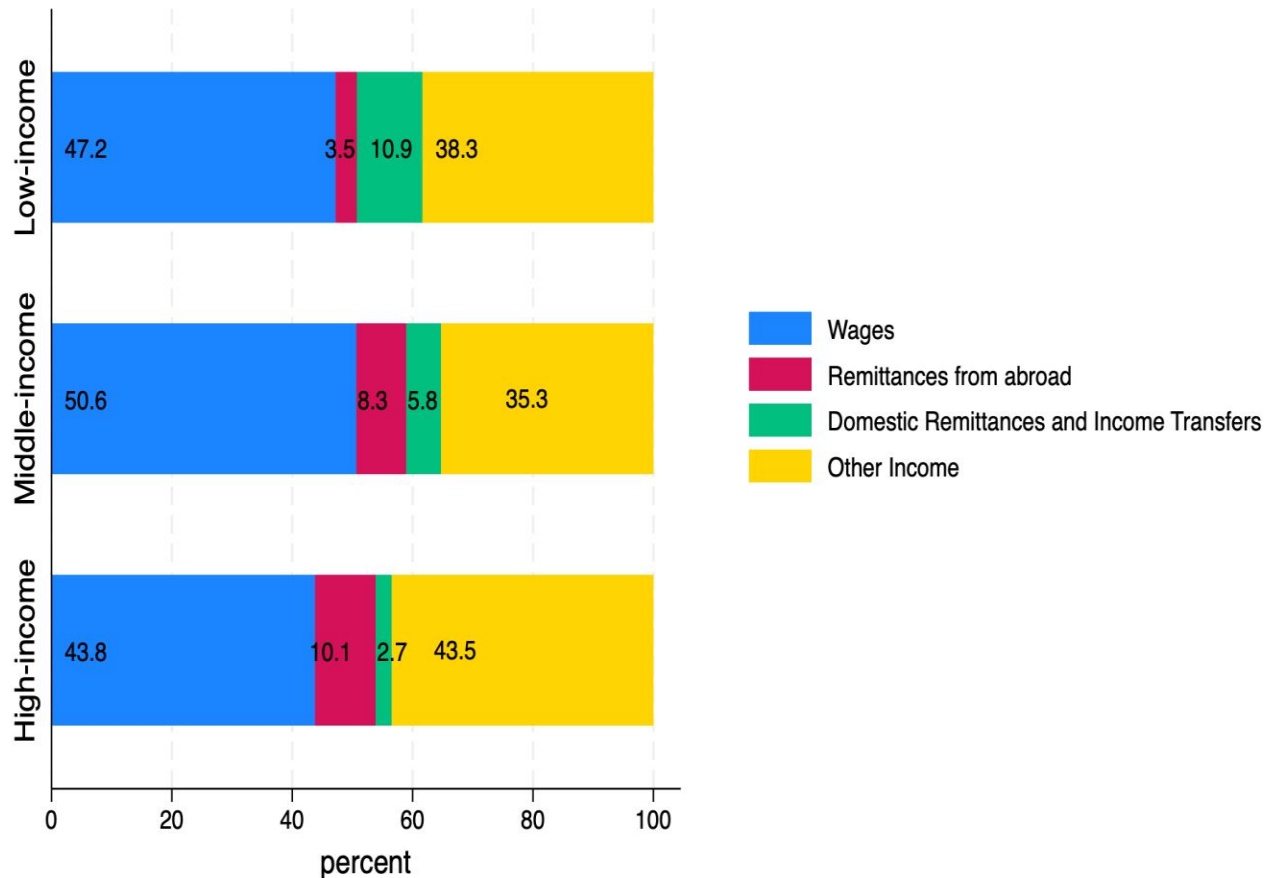
- Adult couples with children and adult couples with children and other adults are the most common household types, especially among low-income families.
- Low-income households tend to have larger, multi-generational families.
- "Other adult combinations - with children" is more prevalent in low and middle-income households than in upper-income ones.

2.1. Spending Patterns in education, health, etc.

- As of 2021, Middle-class spends 1.6x (3.2%) of health compared to low-income class (2.0%), and this is more than a third less than the high-income class (4.9%).
 - This is like the health spending in 2018.
- Education spending is 1.3% of total household expenditure among the middle-income class. This is higher than that of the low-income class (0.5%), and lower than that of the high-income class (2.1%).
 - In 2015, Middle-class spending on education was similar (4.1%) to the upper-income class (4.7%); this is 63 percent more than spending (2.5%) by low-income counterparts



2.2. Income Sources largely from Wages

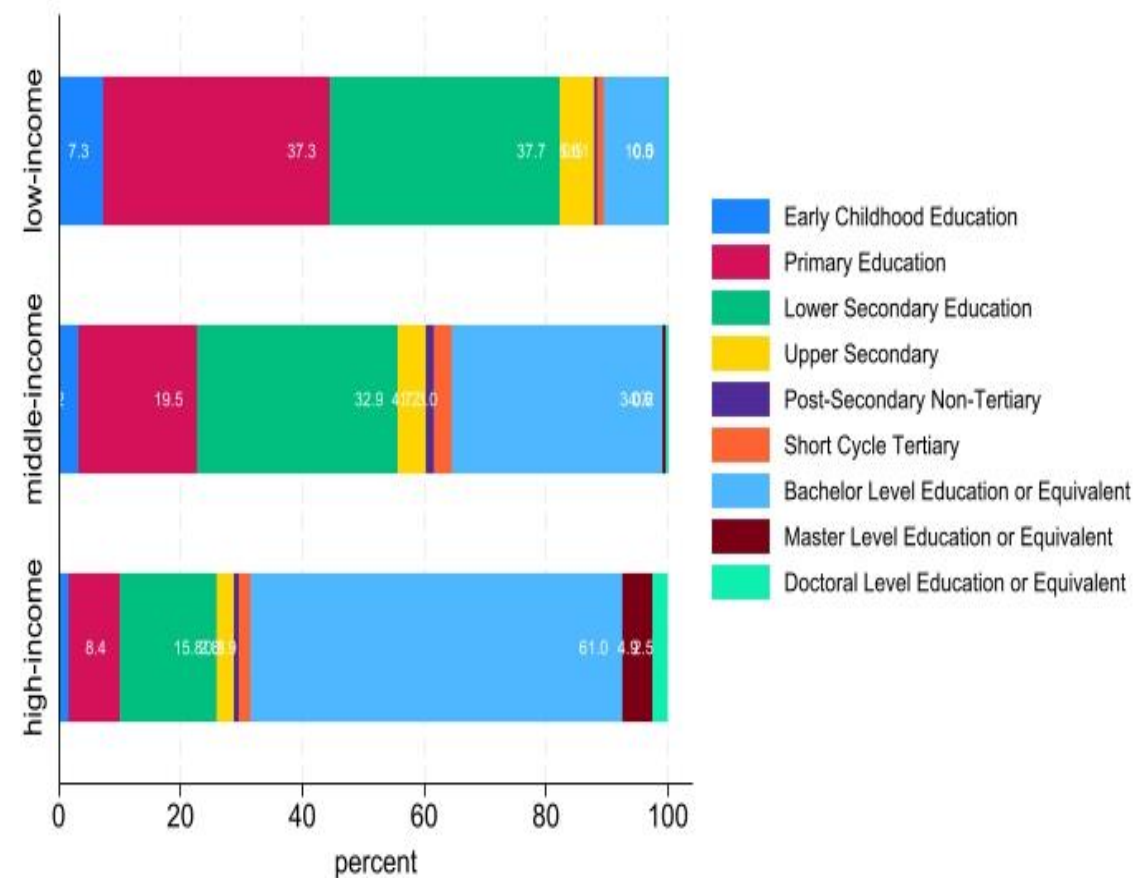


As of 2021, Half (50.6%) of total household income of middle-income class families are sourced from wages, while 8.3% are from overseas remittances, and 5.8% from domestic income transfers.

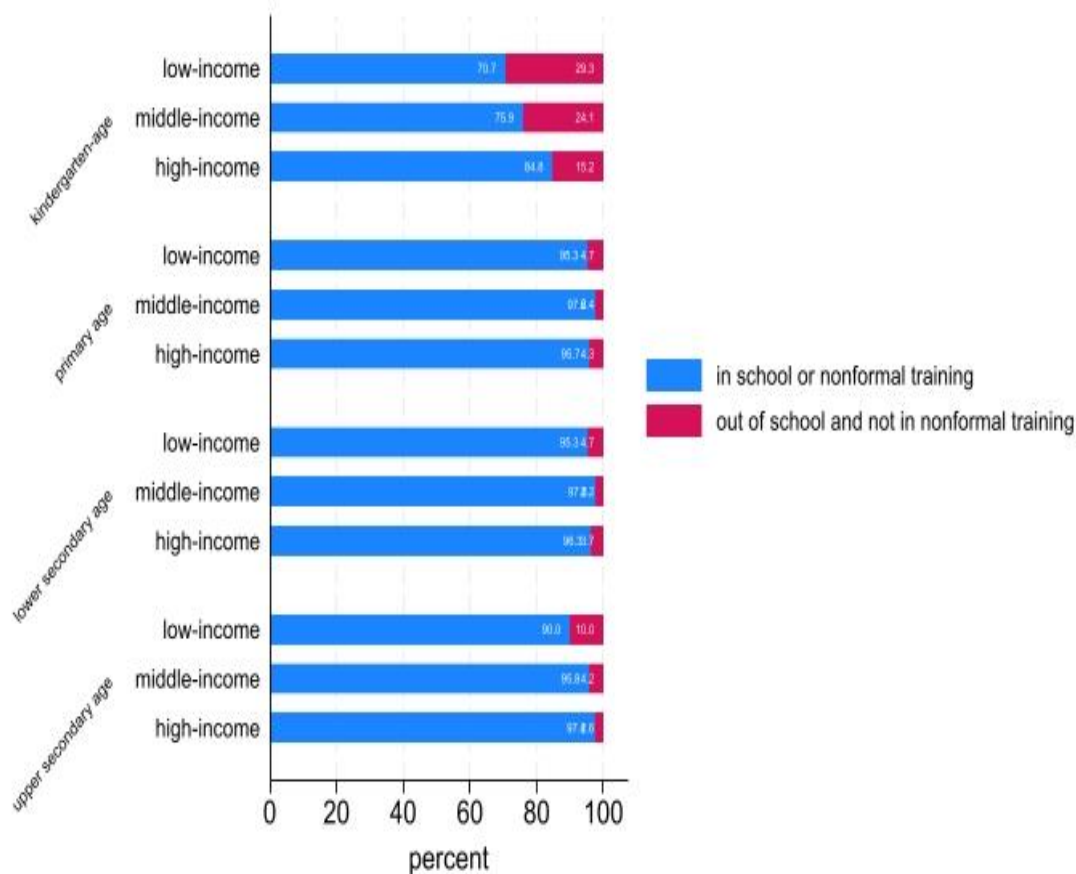
- In contrast, low-income households get 10.9% from domestic income transfers 3.5% from overseas remittances and 47.2% from wages. Meanwhile high-income class gets 10.1% from overseas remittances, 2.7% from domestic transfers and 43.8% from wages.

2.3. Most of middle-class persons 15 years old and above completed college or lower-secondary education

- As of 2021, among those 15 years and over, bulk of middle-class either finished bachelor's degree (40.6%) or lower secondary education (35.1%).
 - In contrast, counterparts in low-income class are mainly with lower secondary education (45.8%), or primary education (27.7%). Only 14.5% of those 15 and over in low-income class have bachelor's degree.
 - Meanwhile two-thirds (66.7%) of counterparts in high-income class with Bachelor's degree or equivalent.



2.4. A quarter of 5-year-old children from middle-income families not in school

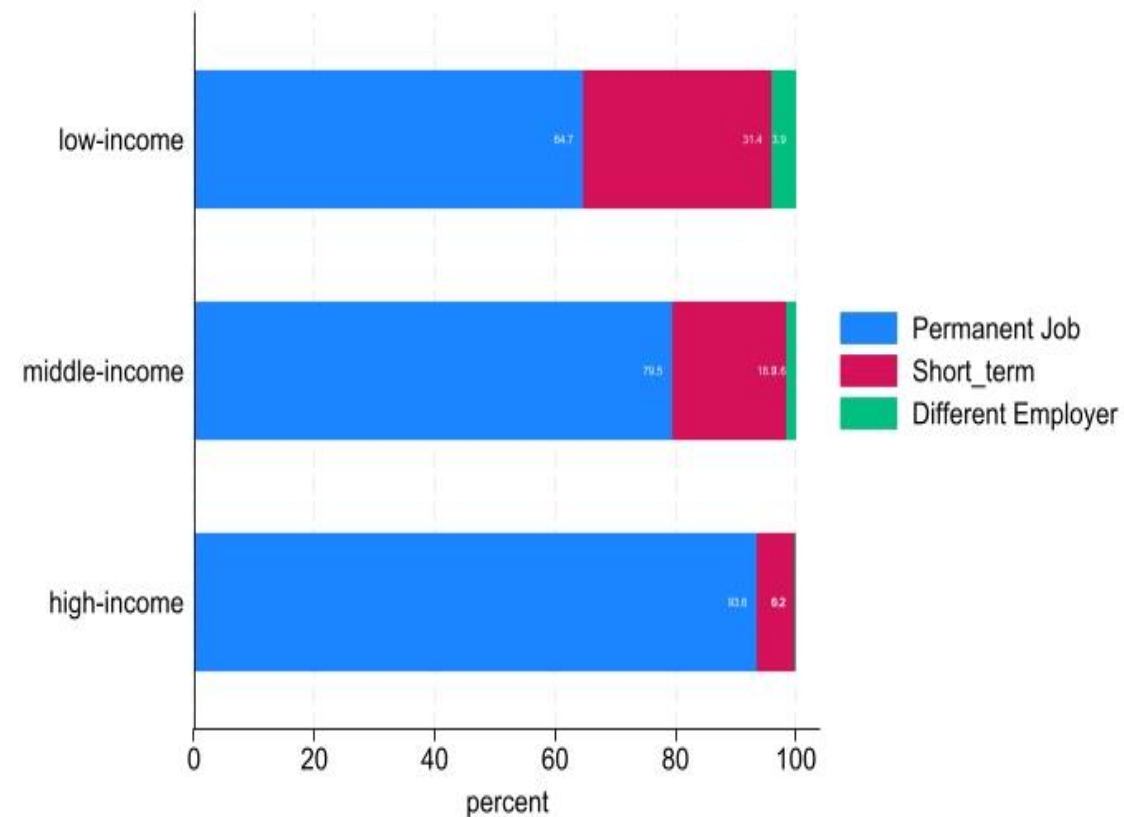


■ As of 2021, among middle-income families, the share of children aged 5 to 17 who are not in school or nonformal training is only 3.9%, but as much as 24.1% of 5-year-old children are still not in school.

- Among middle-class, the rates of not in school and nonformal training among primary-aged, lower secondary aged, and upper secondary aged are 2.4%, 2.2%, 4.2%, respectively.
- In contrast, among low-income families, 7.1% of kids 5 to 17 are not in school or nonformal training; (29.3% among 5-year-old; 4.7% among primary-aged, 4.7% among lower-secondary aged; 10.0% are upper-secondary aged).

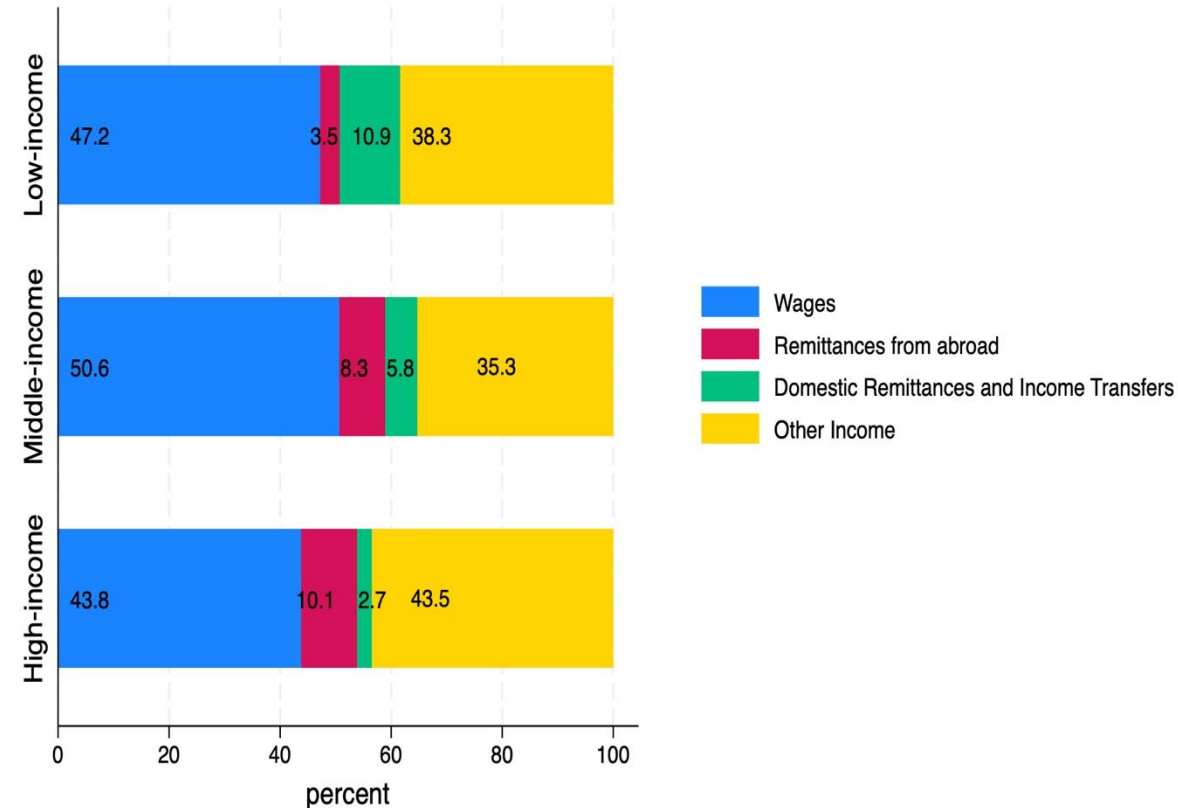
2.5. Nature of Employment of Employed Middle Class

- The middle-class is more likely to be engaged in formal, salaried employment compared to the low-income class. In 2021, about four out of five (79.5%) employed middle-class individuals (aged 15 and over) had permanent jobs, while less than a fifth (18.9%) had short-term or casual employment.
 - In contrast, about a third (31.4%) of employed low-income individuals had short-term or casual jobs.



2.6. Primary sources of income for middle-class households are wages and salaries

- Half (50.6%) of primary sources of income for middle-class households are wages and salaries, a quarter (24.0%) are entrepreneurial activities (24.0%) and a tenth (8.3%) are overseas remittances.
- Low-income households are more dependent on domestic transfers (10.9%) and entrepreneurial activities (31.0%), while high-income households have a higher share of income from overseas remittances (10.1%) and wages and salaries (43.8%).



2.6. Overseas Filipinos and Contribution to Family Income

Distribution of Families by Income Cluster and Presence of Overseas Filipino Worker: 2021 **Average Remittances Received by Families and Average Family Income by Income Cluster :2021**

Income Cluster	With OFW	None	Total
Poor	1,139	99,266	100,405
Low-income but not poor	26,544	1,990,984	2,017,528
Lower middle-income	222,361	7,876,107	8,098,468
Middle middle-income	405,359	7,397,886	7,803,244
Upper middle-income	387,524	4,551,084	4,938,607
High-income- but not rich	213,743	2,081,137	2,294,880
Rich	101,840	1,042,492	1,144,332
Total	1,358,510	25,038,956	26,397,466

Income Cluster	Average Remittances (Cash Receipts, Support, etc.) from		Average Total Family Income
	Abroad	Domestic Sources	
Poor	2,860	15,502	128,714
Low-income but not poor	8,695	16,541	199,551
Lower middle-income	24,153	15,580	315,158
Middle middle-income	46,232	15,709	504,769
Upper middle-income	80,104	17,543	793,814
High-income- but not rich	107,393	28,346	1,144,780
Rich	191,624	29,716	2,548,355
Total	21,992	16,227	307,190

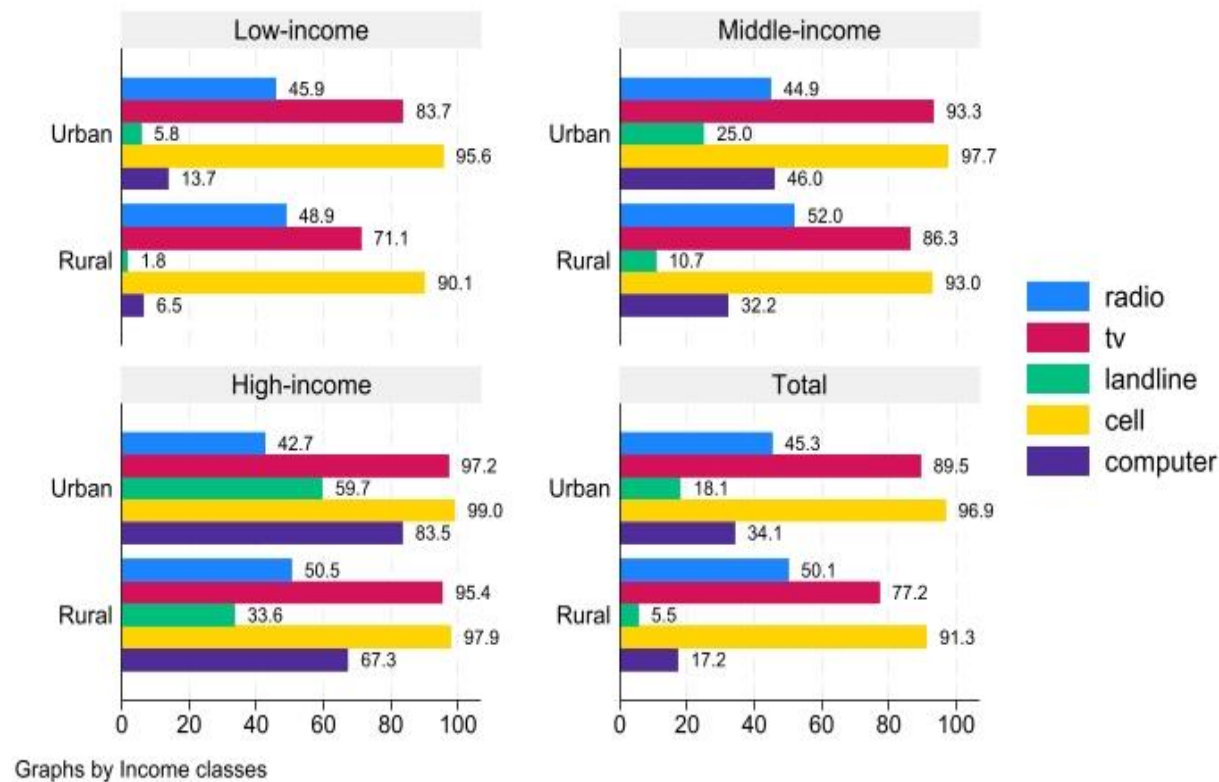
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2.8. Nearly all middle-income families with cell and tv, especially in urban areas

- Among middle-income families, as much as 98% in urban areas with cell phones, and 93% with tv, while in rural areas, 93% with cell and 86% with tv. Radio ownership at 45% in urban and 52% in rural areas; computers at 46% in urban and 32% in rural areas.

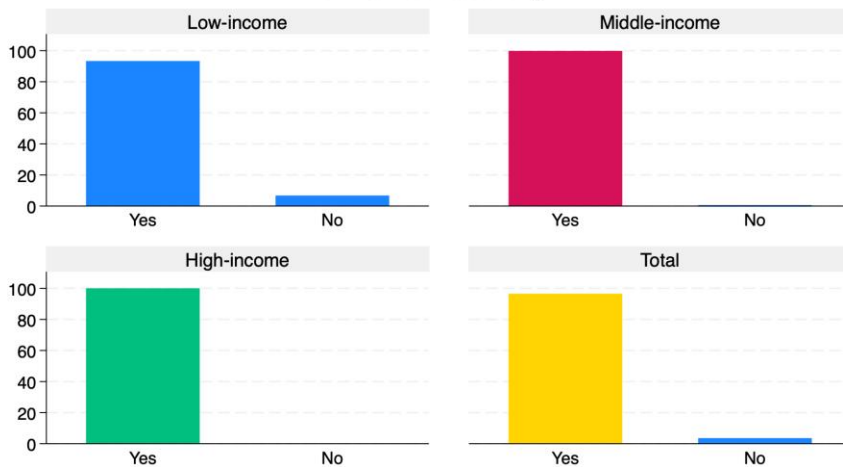
- Ownership of cellphones also high among low-income families in urban areas (96%) and even in rural areas (90%).
- TV ownership among low-income families at 84% in urban areas, and 71% in rural areas



2.9. Access to electricity and safe drinking water

Nearly universal access to electricity: 99.8% for middle-income, 93.3% for low-income and 100.0% for high-income

Access to electricity



Graphs by inclass

Sources of Drinking Water	Low -income	Middle-income	High-income	All Houses
Piped into dwelling	14.99	16.41	16.08	15.68
Piped to yard/plot	6.42	2.37	0.46	4.41
Piped to neighbor	1.72	0.53	0.01	1.13
Public tap/Stand pipe	4.98	1.47	0.32	3.25
Tubed well/borehole	7.28	3.13	1.1	5.22
Protected well	7.09	2.55	0.84	4.85
Unprotected well	1.12	0.19	0	0.66
Protected spring	5.4	1.61	0.44	3.53
Unprotected spring	1.33	0.22	0	0.78
Rainwater	0.29	0.08	0	0.19
Tanker-truck	0.57	0.14	0	0.36
Cart with small tank	0.09	0.04	0.04	0.07
Water Refilling Station	47.63	70.29	79.25	58.84
Surface Water (River, Dam, Lake, P	0.33	0.05	0	0.19
Bottled water	0.4	0.52	0.58	0.46
Sachet water	0.01	0	0	0
Other, please specify	0.37	0.38	0.88	0.38

3. Can Expansion of Middle-Class be Sustained?

Impact of the COVID-19 Pandemic on the Middle-Class

- Reversal of gains in middle-class expansion
- Vulnerability of lower-middle-income households

Pathway for Middle-Class Expansion

- Importance of structural transformation of economy: export-orientation, diversification, and increasing product sophistication
- Need to adapt to global megatrends and transitions
- Governance matters

3.1. Pathway for Middle Class Expansion

A. Promoting Social Justice in Natural Resource Management and Climate Change Transition

- Importance of equitable sharing of benefits from natural resources
- Need for climate change adaptation and mitigation measures

B. Harnessing New Opportunities in Trade and Investments for MSMEs

- Role of MSMEs in broad-based economic growth
- Challenges faced by MSMEs and potential solutions

3.1. Pathway for Middle Class Expansion

C. Ensuring Future-Ready Workforce and Social Protection

- Importance of human capital development
- Need for skills development, particularly in STEM and digital skills
- Strengthening social protection systems for informal and gig workers

D. Improving Digital Governance and Public Service Delivery

- Potential of digital technologies to transform public service delivery, drive economic growth and create jobs
- Need to bridge the digital divide and ensure equitable access
Importance of digital literacy and skills development

Past PIDS Studies on Middle Class

- Defining and Profiling the Middle Class , [PIDS Policy Note No. 2018-18](#)
- Poverty, the Middle Class, and Income Distribution amid COVID-19, [PIDS Discussion Paper No. 2020-22](#)
- Profile and Determinants of the Middle-Income Class in the Philippines, [PIDS DP No. 2018-20](#)
- Why Inequality Matters in Poverty Reduction and Why the Middle Class Needs Policy Attention, [PIDS DP No. 2015-55](#)
- Why We Should Pay Attention to the Middle Class, [PIDS PN No. 2015-13](#)