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Wealth Creation for Expanding the Middle Class in the Philippines

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Wealth Creation for Expanding the Middle Class in the Philippines

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Abstract

The Philippines has set an ambitious goal of becoming a predominantly middle-class society free of poverty by 2040. However, this aspiration comes at a time of significant global headwinds that pose risks to the country's development trajectory. *Growing the middle class* is more closely related to new *wealth creation* rather than typically associated themes such as *poverty reduction* or *redistribution*. This background paper for the 2024 Philippine Institute for Development Studies Annual Public Policy Conference (APPC) provides an updated profile of the Philippine middle-class. Using an income-based definition that delineates the middle-class as households with per capita incomes between 2 to 12 times the official poverty line, the paper finds that the middle-class grew from 28.5% of the population in 1991 to 39.8% in 2021. However, this growth has not been linear, with the COVID-19 pandemic reversing some of the gains made in recent years. Drawing on data from the 2021 Family Income and Expenditure Survey and the July 2021 round of the Labor Force Survey, this paper describes the key socioeconomic characteristics of the middle-class. The middle-class is predominantly urban, more educated, and more engaged in formal employment compared to lower income groups. However, there are significant regional variations in the size and profile of the middle-class.

To harness the potential of the middle-class as a driver of inclusive growth, this APPC background paper proposes a multi-pronged strategy that includes: (1) promoting social justice in natural resource management and climate change transition; (2) harnessing new opportunities in trade and investments for MSMEs; (3) ensuring a future-ready workforce and social protection; and (4) improving digital governance and public service delivery.

This paper argues that realizing the vision of a predominantly middle-class society will require bold and concerted action across these priority areas. It will also necessitate effective leadership, coordination, and collaboration among government, the private sector, civil society, and development partners. By putting in place a comprehensive agenda for middle-class expansion, the Philippines can build a more resilient, equitable, and prosperous future for all Filipinos.

Keywords: middle class, inclusive growth, Philippines, income distribution, poverty, social protection, digital economy, climate change, MSMEs

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Wealth Creation for Expanding the Middle Class in the Philippines

Jose Ramon G. Albert, Roehlano M. Briones, and John Paolo R. Rivera[1]

Introduction

The Philippines stands at a critical juncture in its economic development journey. As the country sets its sights on attaining upper middle-income status and fostering a predominantly middle-class society where no one is poor (National Economic Development Authority [NEDA] 2015), it faces a unique set of opportunities and challenges in expanding its middle-class. A strong and growing middle-class is widely recognized as a key driver of sustainable and inclusive economic growth (Huld and Interesse 2023; Banerjee and Duflo 2008; Easterly 2001). Middle-class households have higher purchasing power, which fuels domestic consumption and investment (Zhang 2017; Murphy *et al*. 1989). They also tend to have higher levels of education and skills, making them a vital source of human capital for boosting productivity and competitiveness (Albert *et al.* 2015). Moreover, a larger middle-class can contribute to greater social and political stability by fostering a stronger stake in the nation's development (Chun *et al*. 2011; Huntington 1991).

Growing the middle class is a theme that is more closely related to new *wealth creation* rather than associated themes such as *poverty reduction* or *redistribution*. To be clear, the new wealth creation being envisioned is **not** exclusive to already wealthy households, but is based broadly and inclusively across society, involving the movement of the poor and other low-income into the middle class, as well as growing affluence of the existing middle class. The country's aspiration to expand its middle-class, however, comes at a time of significant global headwinds that affect prices, employment and income (Diao *et al.* 2022). The world is grappling with increasing fragmentation, polarization, and conflicts that pose risks to economic growth and stability. At the same time, rapid technological advancements, climate change, and shifting global economic structures are reshaping the landscape of opportunities and challenges for less developed countries like the Philippines.

The pathway to new wealth creation towards the mid-21st century must adapt and even flourish under these global megatrends. On the positive side, the Philippines has the potential to tap into vast pools of global capital to finance its development needs. The Fourth Industrial Revolution (FIRe), characterized by the fusion of digital, physical, and biological technologies, is opening up new frontiers for innovation, productivity growth, and job creation (Dadios *et al*. 2018). The increasing servicification of economies, where services play a more dominant role in value creation across all sectors, presents opportunities for the Philippines to leverage its strong service industries (Serafica 2016, 2021). Moreover, the explosive growth of data and digital platforms offers new avenues for entrepreneurship, market access, and economic inclusion.

The Philippines also confronts significant challenges in its pursuit of a larger middle-class. Rising geopolitical tensions and the threat of global conflicts can disrupt trade, investment, and growth. Widening inequalities in access to opportunities, both within and across countries, risk

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leaving many Filipinos behind. The lack of globally competitive industries in high value-added sectors constrains the country's ability to generate quality jobs and raise incomes. Underdeveloped infrastructure, particularly in transportation, energy, and digital connectivity, hampers productivity and economic integration. Gaps in education and skills development also limit the Philippines' capacity to fully harness its human capital potential.

Navigating this complex web of opportunities and challenges requires a strategic and evidence-based approach to growing the Philippines' middle-class. This background paper aims to contribute to this effort by providing a profile of the country's middle-class and identifying key levers of its expansion. By analyzing data mainly from the 2021 Family Income and Expenditure Survey (FIES) and Labor Force Survey (LFS), this paper sheds light on the characteristics and aspirations of, as well as challenges faced by middle-income households in the Philippines. This background paper also draws on scholarly literature to distill lessons from international experiences and identify policy levers for fostering a broader and more prosperous middle-class.

The importance of the middle-class for economic growth and stability has been well-documented. Huld and Interesse (2023) underscored that the rise of the middle class indicates a significant societal shift with extensive consequences on a country's domestic consumption patterns, social structure, and international economic relations. The underlying reason for this is explicated by Easterly (2001) who finds that countries with a larger middle-class tend to have higher levels of income and growth, better institutions, and more social cohesion. He expands on the idea of the "middle-class consensus," arguing that a larger middle-class leads to better institutions and more progressive policies that foster long-term economic growth.

Huntington (1991) argues that the middle-class is a key driver of democratization and political stability. As societies develop economically and the middle-class grows, there is increasing pressure for political participation and accountability. Acemoglu and Zilibotti (1997) propose that a larger middle-class can lead to a more diversified economy and reduced risk.

Banerjee and Duflo (2008) suggest that the middle-class is essential for entrepreneurship and innovation. They find that in developing countries, the middle-class is more likely to invest in human capital and engage in entrepreneurial activities, which can lead to higher productivity and economic growth.

Murphy *et al*. (1989) argue that a strong middle-class is important for creating a robust domestic market. The middle-class has a higher propensity to consume, which can drive demand for goods and services, leading to increased investment and economic growth. Additionally, the middle-class is seen as a stabilizing force in society, with a vested interest in maintaining social and political stability (Birdsall 2010).

Milanovic and Yitzhaki (2002) and Milanovic (2001) highlight the role of the middle-class in reducing income inequality. Countries with a larger middle-class tend to have lower levels of inequality, as the middle-class acts as a buffer between the rich and the poor. Ravallion (2009) notes that the middle-class can be a source of domestic demand and a driver of consumption-led growth. However, he also cautions that in some developing countries, the middle-class may be vulnerable to economic shocks and that policies are needed to support and protect this segment of society.

Several studies have examined the factors that contribute to the growth of the middle-class in different countries. Economic growth and structural transformation are widely recognized as key drivers of middle-class expansion (Ravallion 2010; Chun *et al*. 2010; Asian Development Bank [ADB] 2010). As countries experience economic growth, there is a shift from agriculture to industry and services, creating new opportunities for higher-paying jobs and upward mobility. However, more recent literature such as that of Sen (2019) and Sawada (2022) probed on other mechanisms of structural transformation (e.g., bypassing industrialization for development). Human capital accumulation, particularly through education, is another critical factor in middle-class expansion. Castellani and Parent (2011) find that education is a key driver of middle-class growth in Latin America. Shimeles and Ncube (2015) also find that education is a strong predictor of middle-class status in Africa. Consistently, Hardy and Marcotte (2020) also found that education, particularly higher education. positively predicts middle class status and top quintile status among black households and non-black households, respectively.

Urbanization has played a significant role in the growth of the middle-class (Zhu 2019), particularly in developing countries (Florida 2017). Huld and Interesse (2023) and Ravallion *et al*. (2009) find that urbanization has been a key factor in the growth of the middle-class in China, as urban areas offer more diverse employment opportunities and higher wages compared to rural areas. Mcgranahan and Martine (2014) argue that urbanization can create a virtuous cycle of middle-class growth.

Globalization and the expansion of international trade have also contributed to the growth of the middle-class in many countries (Das 2009). Lakner and Milanovic (2016) find that the growth of the global middle-class in recent decades has been driven in large part by the integration of developing countries into the global economy.

Finally, policies that promote inclusive growth and redistribute the gains from economic growth have been important for middle-class expansion (Bourguignon 2018). Progressive tax systems, where higher-income households pay a larger share of their income in taxes, can help redistribute resources and fund public investments in education, health, and infrastructure that benefit the middle-class (Stiglitz 2012). Ramos *et al*. (2018) argue that policies such as progressive taxation, social protection, and investments in education and health are essential for ensuring that the benefits of economic growth are shared more broadly.

The middle-class also plays a crucial role in shaping the political landscape and policy decisions in many countries (Amoranto *et al.* 2010). Acemoglu *et al*. (2012) theorize that politicians may introduce "populist" policies that are to the left of the political bliss point of the median voter to signal that they are not captured by the elite. This implies that the middle-class, often considered the median voter, can influence politicians to adopt policies that cater to their interests, even if these policies may not be optimal for the overall economy.

Ferreira *et al*. (2013) argue that the rise of the middle-class in Latin America has led to increased demand for better public services, greater accountability, and more inclusive policies. They suggest that the middle-class can act as a stabilizing force in society, promoting social cohesion and reducing the risk of political instability.

However, the growing influence of the middle-class on policy decisions may also have some negative consequences. If public resources are shifted away from the low-income groups towards the middle-class, it could hinder inclusive development and widen socio-economic divides. This is particularly concerning in countries with high levels of income inequality, where the middle-class may not be representative of the broader population.

In the Philippines, Ducanes and Abella (2008) provide evidence on the role of international migration in poverty reduction and middle-class expansion. Using panel data from LFS, FIES, and the Annual Poverty Indicators Survey (APIS), they find that a significant proportion of new migrants come from lower-income deciles and that families who are able to send a member abroad experience rapid increases in per capita income, allowing many who were previously poor to cross the poverty line. However, the authors also note that households with more educated migrants had greater success in moving out of poverty.

Using cluster analysis on (per capita) income data to identify the middle-class, Virola *et al*. (2013) estimate that the proportion of middle-class households in the Philippines grew from 19.9% in 1991 to 23.5% in 2009. Meanwhile Albert *et al*. (2018a), who also define the middle-class with (per capita) income data but using twice to twelve times the national poverty lines as the thresholds, suggest that the percentage of middle-class Filipinos increased from 28.5% in 1991 to 40.5% in 2015. They attribute this growth to various factors, including increasing urbanization, improving educational attainment, and the growth of the service sector. However, they also caution that despite the progress made in reducing poverty and concomitantly expanding the middle-class, income inequality in the country remains high, which hinders accelerated expansion of the middle-class.

Albert and Vizmanos (2018b) examine the vulnerability of the middle-class to poverty using panel data from the FIES. They find that a significant proportion of middle-class households are at risk of falling into poverty due to economic shocks. Albert *et al*. (2020) simulate the impact of the COVID-19 pandemic on the Philippine middle-class and find that the pandemic is likely to have disproportionately affected the middle-class, particularly those in the lower-middle-income segment.

In an era of profound global shifts and disruptions, a strong and growing middle-class can be a source of resilience, dynamism, and shared prosperity for the nation. Realizing this vision of an expanded middle-class, however, will require bold and concerted action to address barriers to wealth creation, and seize the opportunities of the 21st-century economy.

By bringing together insights from data and the literature, this background paper aims to contribute to the critical task of building a predominantly middle-class society in the Philippines. It provides an updated profile of the middle-class in the Philippines using the latest available data from the FIES and LFS. The background paper also suggests that expanding the middle-class requires a multi-pronged pathway that includes, among others:

1. Promoting social justice in natural resource management and climate change transition
2. Harnessing new opportunities in trade and investments, particularly for micro, small, and medium enterprises (MSMEs)
3. Ensuring a future-ready workforce and strengthening social protection systems
4. Improving digital governance and public service delivery

The remainder of this paper is structured as follows: Section 2 provides a profile of the middle-class in the Philippines, starting with a brief overview of global definitions of the middle-class before delving into the Philippine context. Technical details on the methodology and data sources for middle-class definition in this paper, are provided in the Annex. Section 3 reviews the literature on the four multi-pronged pathway for middle-class expansion. Section 4 concludes with the authors' perspectives on specific policy recommendations for fostering a stronger and more inclusive middle-class in the Philippines.

Profile of the Middle-class

Defining the middle-class is a complex task, as there is no single, universally accepted definition, just as defining poverty itself is contentious (Joliffe and Prydz 2016). Economists use a range of approaches, including both relative and absolute income or expenditure thresholds, to delineate the boundaries of the middle-class, taking into account the varying standards of living across countries.

One approach to defining the middle-class is to use relative income thresholds. For example, Thurow (1987) and Birdsall *et al*. (2000) define the middle-class as households with incomes between 75% and 125% of the median income in a given country. This approach captures the idea of the middle-class as a group that falls in the middle of the income distribution, relative to the specific context of each society. Pressman (2007, 2010) also employs relative definitions of the middle-class in his cross-country analyses, emphasizing the importance of understanding the middle-class in relation to the overall income distribution within a country.

In contrast, other studies use absolute income or expenditure thresholds to define the global middle-class. A seminal paper by Milanovic and Yitzaki (2002) defined the (global) middle-class as those earning between $12 and $50 per day per person, using household survey data at 2000 purchasing power parities (PPP). This definition, which takes the average incomes of Brazil and Italy as the respective floor and ceiling, has been widely used in subsequent studies. This definition, however, has been critiqued for excluding many people in China and India who are recognizably middle-class but earn less than USD 12 a day. Ravallion (2010) proposed an alternative range of USD 2 to USD 13 at 2005 PPP prices, with USD 2 a day being a commonly accepted threshold in developing countries for extreme poverty, and USD 13 a day being the poverty line in the United States. Such a definition captures the remarkable growth of the emerging market middle-class, which almost doubled from 1.4 billion to 2.6 billion between 1990 and 2005, rising from one-third to half of the developing world's population. This growth was particularly pronounced in China, where the numbers living on USD 2 to USD 13 a day rose from 174 million to 806 million in just 15 years.

Other studies provide additional perspectives. Kharas (2010), for instance, defines the middle-class as households with daily expenditures between USD 10 and USD 100 per person in PPP terms and estimates that this segment will grow from 1.8 billion in 2009 to 4.9 billion by 2030, with Asia accounting for 85% of the growth. Banerjee and Duflo (2008) focus on the middle-class in developing countries, defined as those living on between USD 2 and USD 10 per day, arguing that this group is characterized by higher levels of education, salaried jobs, and strong aspirations for upward mobility.

Following global work, quantitative studies in the Philippines have examined per capita income distribution, making use of cluster analysis to estimate the size of the middle-classes in the country (Virola *et al*. 2013) or derived income clusters based on multiples of the national poverty line (Albert *et al*. 2015; 2018a). Market researchers have grouped households into five socioeconomic classifications based on a scoring system of employment and educational characteristics of the household, household assets, amenities, and facilities (Bersales *et al.* 2013).

Never and Albert (2021) adopt an asset- and expenditure-based definition to study the middle-classes in Metro Manila, finding that this group is characterized by stable employment, access to consumer durables, and aspirations for upward mobility. They also point out that the Filipino middle-class has evolved through a complex interplay of historical, economic, and social factors. The middle-class first emerged during the period of American colonial rule, with industrialization leading to increased incomes and social prestige for certain groups in society (Pinches 2005). Throughout the 20th century, the size of the middle-class, however, remained small and concentrated in Metro Manila partly due to stagnating industrialization during the 1960s to 1980s. Despite the presence of democratization and protest movements in the early 1980s, the Filipino middle-classes did not develop a strong class consciousness or stable political vision (Kimura 2003). Instead, consumption and consumption capacities became the distinguishing factors separating the middle-class from the low-income segments of society (Never and Albert 2021).

This highlights the importance of understanding the middle-class as a multidimensional concept that goes beyond income alone. Sociologists and political scientists have long argued that the middle-class is not just an economic category but also a social and cultural one (Birdsall 2010). Middle-class status is often associated with certain levels of education, occupational prestige, and lifestyle aspirations, in addition to income or expenditure levels (Birdsall 2010; Neubert and Stoll 2018).

In the Philippines, the middle-class has been characterized by its diversity in terms of occupational backgrounds, family histories, and income levels (Kimura 2003). This heterogeneity has prevented the formation of a single, cohesive middle-class identity. Instead, as Pinches (2005, p. 293) argues, "the identities of those in the middle are to be discovered primarily in their consumer capacities and practices."

The role of globalization and international labor migration has also shaped the development of the Filipino middle-classes in recent decades. The number of Overseas Filipino Workers (OFW) and their remittances to families back home have grown substantially since the 1990s, altering traditional patterns of social mobility and status (Aguilar 2014). OFW middle-classes are embedded in transnational relationships and identities, often experiencing a lower social status in their host countries but a higher status in their home communities (Never and Albert 2021).

Thus, while income and consumption capacities are central to middle-class status, a comprehensive understanding of this group must also consider dimensions such as education, occupation, lifestyle aspirations, and global connections. These multidimensional characteristics of the middle-classes have important implications for their consumption patterns and the prospects for sustainable development in the Philippines.

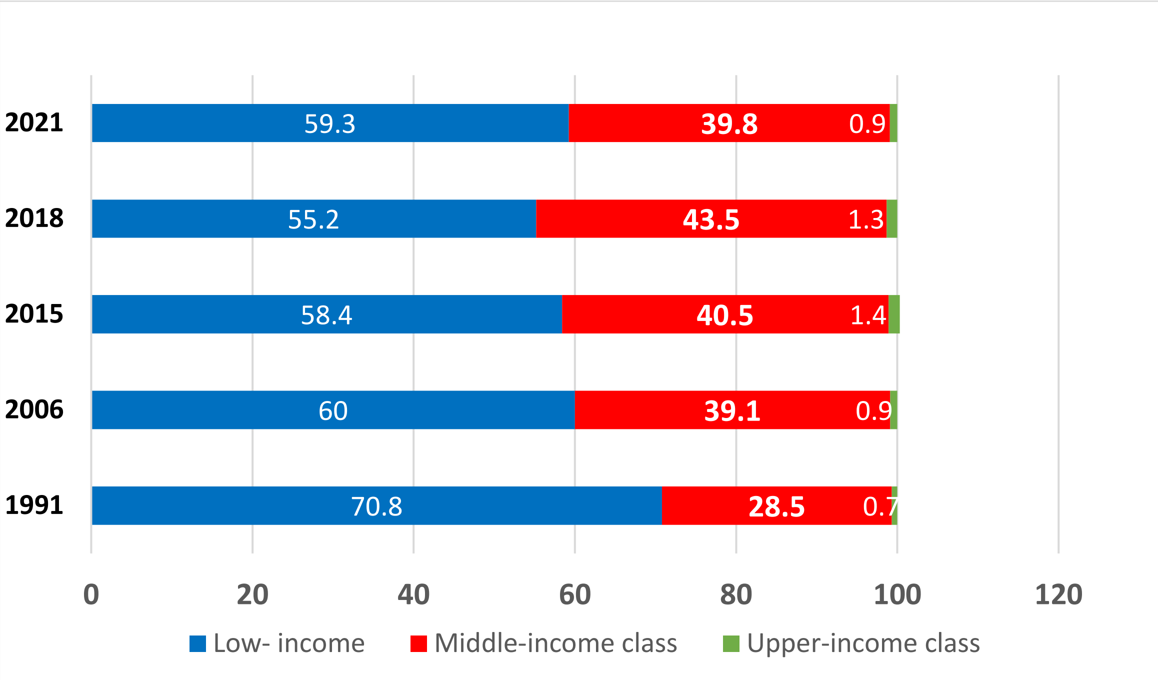
Although the precise boundaries of the middle-class remain a matter of definition, there is a consensus that the middle-class rapidly expands, and becomes increasingly important as a country develops, with significant implications for consumption patterns, sustainable development, and socio-political stability. Understanding the characteristics, aspirations, and challenges of this segment is consequently crucial to navigate the emerging complex realities of the 21st-century global economy.

In this background paper, the authors adopt the methodology of Albert *et al*. (2018) that defines the middle-class as those belonging to households with (per capita) incomes between twice and twelve times the official poverty lines. Further methodological details on the clusters and classes of income distribution are found in the Annex. Based on this definition, in 2021 prices, the monthly family income range for a middle-income class with five members would be between approximately PHP 25 thousand and PHP 145 thousand (**Annex Table 1**). Further, using data largely from the 2021 FIES, this section provides a detailed profile of the middle-class in the Philippines, including its size and growth over time, geographic distribution, demographic characteristics, income sources and expenditure patterns, education and employment, asset ownership and access to amenities, and the impact of the COVID-19 pandemic.

2.1. Size and Growth of the Middle-class

Based on the income-based definition adopted in this background paper, the middle-class in the Philippines has grown significantly over the past three decades. In 1991, only 28.5% of the population belonged to the middle-class. By 2021, this proportion had increased to 39.8%, representing 34.4 million Filipinos (**Figure 1**).

Figure 1. Size and Share of the Middle-class, 1991-2021



Note: Authors' calculations from 1991, 2006, 2015, 2018, and 2021 FIES

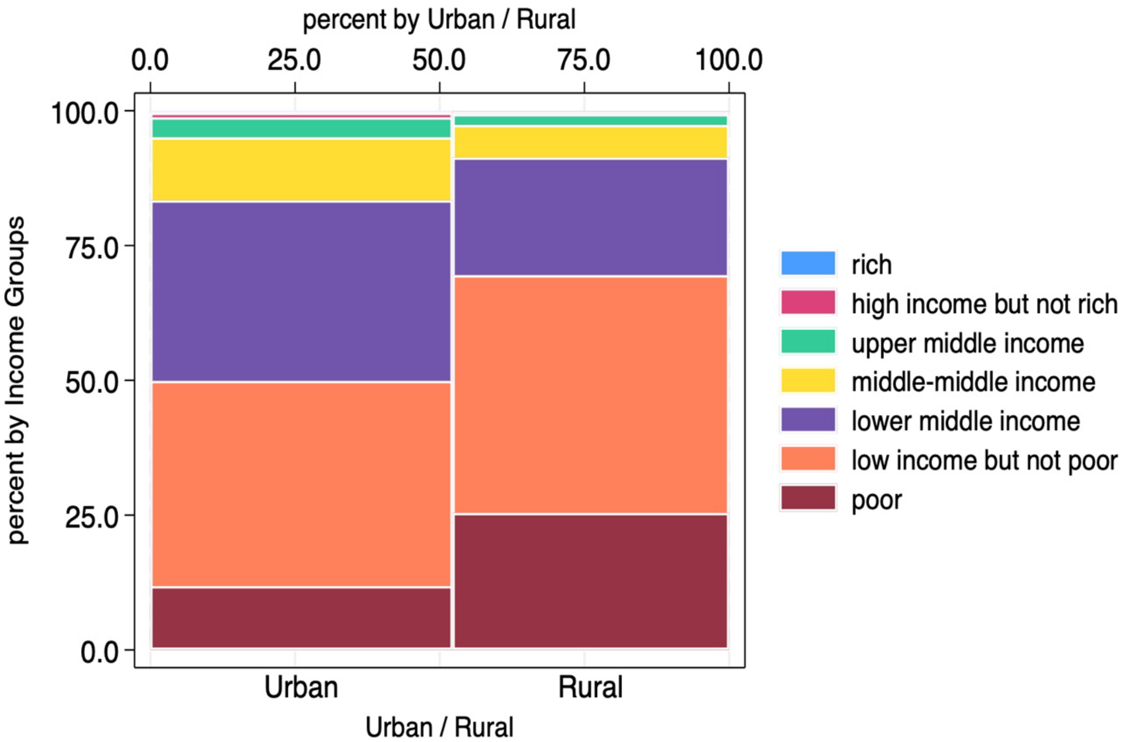
The growth of the middle-class, however, has not been consistent over time. Between 2015 and 2018, the middle-class expanded rapidly, with its share increasing from 40.5% to 43.5%. However, the COVID-19 pandemic appears to have reversed some of these gains, with the share of the middle-class falling to 39.8% in 2021.

2.2. Geographic Distribution

The middle-class in the Philippines is predominantly urban, with 60.6% of urban residents belonging to the middle-class in 2021, compared to only 33.8% of rural residents (**Figure 2**).

In urban areas, the low-income but not poor category dominates (38.0%) the income clusters, followed by the lower-middle-income class (33.5%). This is a change from 2018, when the lower-middle-income class had the highest share (36.0%) in urban areas. In rural areas, the low-income but not poor category has the highest share (44.1%), followed by the poor (24.5%). This is similar to the situation in 2018, when rural areas were dominated by the low-income but not poor category (43.3%).

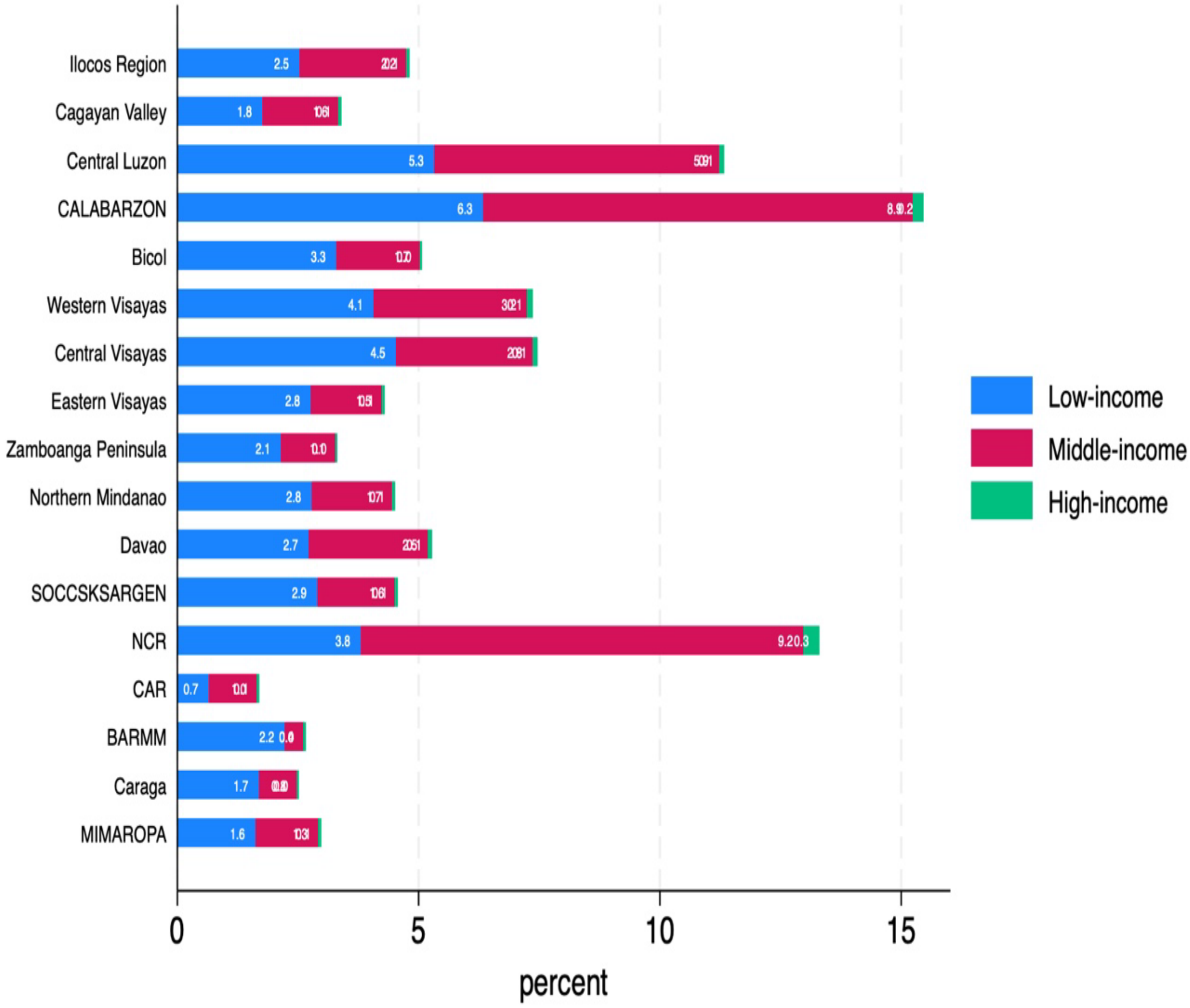
Figure 2. Share (in %) of Income Clusters by Urban/Rural Area, 2021 (%)



Note: Authors' calculations from 2021 FIES

As of 2021, three-fifths (59.3%) of Filipinos belong to families that have low-income, i.e., with per capita incomes below twice the official poverty line, and in most regions, low-income Filipinos are the majority (**Figure 3**). The only exceptions are the National Capital Region (NCR), Cordillera Administrative Region (CAR), and Region IV-A (CALABARZON), where only 36.7%, 46.7%, and 49.6% of the residents are low-income, respectively. In NCR, three out of five persons (62.0%) are from the middle-income class, while in CAR, half (50.9%) belong to the middle-income class. Meanwhile, CALABARZON has the same share of low-income (49.6%) and middle-income classes (49.5%).

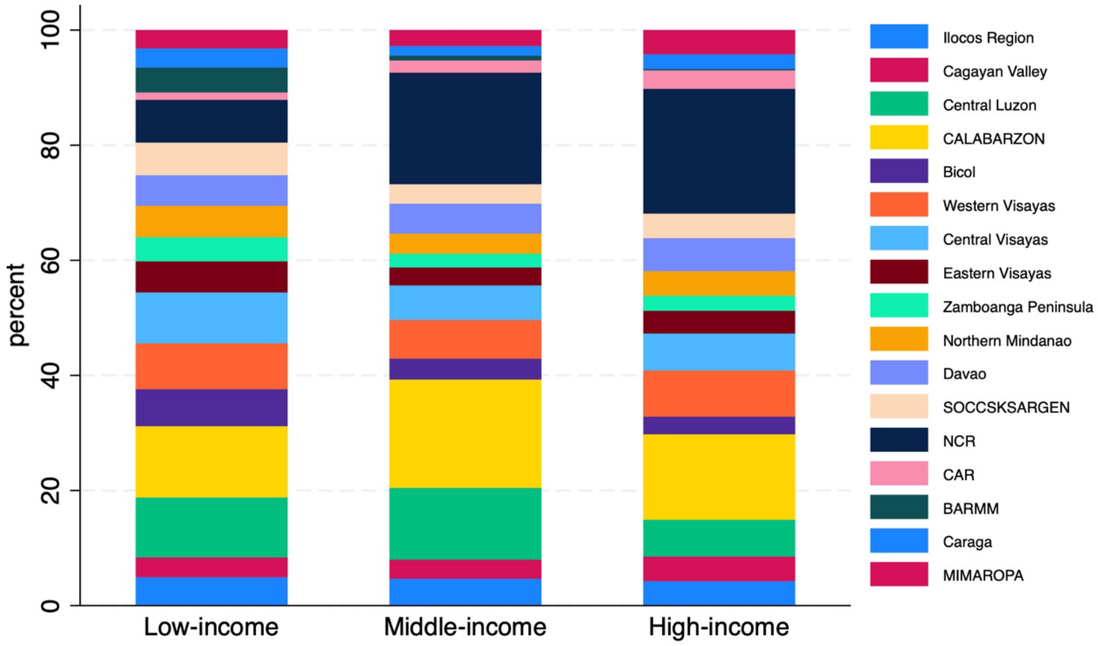
Figure 3. Proportion (in %) of Population by Income Classes and Region, 2021 (%)



Note: Authors' calculations from 2021 FIES

As per **Figure 4,** of the 39.8% in the middle-income class, most are in NCR, CALABARZON, and Central Luzon, which contribute 51.8% to the total middle-income Filipinos. The NCR has the highest concentration of middle-income class, with 62.0% of its population belonging to the middle-class. Other regions with a large middle-class presence include CALABARZON (49.5%) and Central Luzon (46.1%). In contrast, the regions with the highest shares of the low-income class are CALABARZON, Central Luzon, and Central Visayas, which together contribute 22.4% to the total low-income Filipinos. The remaining 0.9% of Filipinos have a high income (at least 20 times the poverty line). Most of these high-income individuals reside in NCR, CALABARZON, and Central Visayas, which contribute 40.4% to the total high-income Filipinos.

Figure 4. Proportion (in %) of Income Classes by Region, 2021 (%)



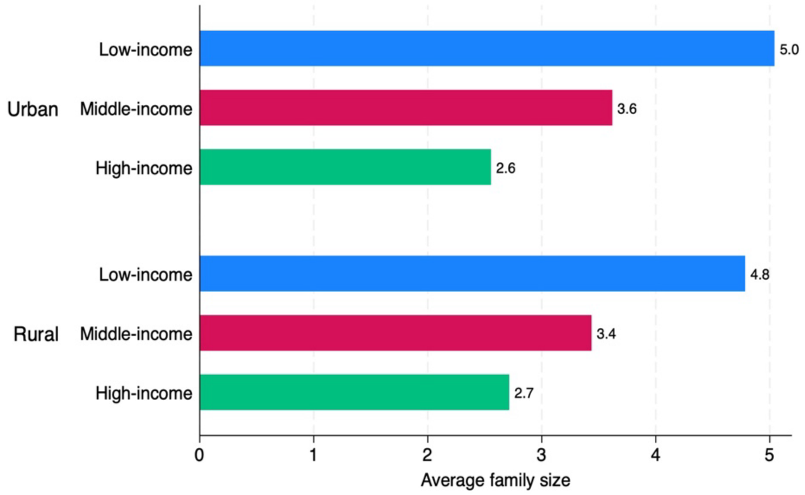
Note: Authors' calculations from 2021 FIES

2.3. Demographic Characteristics

2.3. Demographic Characteristics

As of 2021, the average family size in the Philippines is 4.2. Middle-class households tend to be smaller than low-income households, with an average household size of 3.6 members compared to 5.0 for low-income households in 2021 (**Figure 5**). Meanwhile, high-income households have an average family size of 2.6 in the same year. The middle-class also has a lower dependency ratio than the low-income class, with fewer children and elderly members relative to working-age adults.

Figure 5. Average family size, by income class and by location: 2021



Note: Authors' calculations from 2021 FIES

The data in **Table 1** provide insights into the distribution of household typologies across different income groups in the Philippines for the year 2021. Most Filipino households consist of either adult couples with children (25.4%) or adult couples with children and other adults (28.0%), with these two typologies being particularly prevalent among low-income households, indicating that larger, multi-generational families are more common in this income bracket. Another notable household typology is "Other adult combinations - with children" (21.4%), which includes various combinations of adults, children, and seniors living together, and is more prevalent among low-income and middle-income households compared to upper-income households.

Table 1. 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
Children = less than 18 years old; Adults = 18 to 59 years old; Seniors = 60 and above.
* "Other adult combinations - no children" include a) 1 adult male, 1 adult female, with seniors; b) multiple adults, with seniors; c) adult male/s, with seniors; d) adult female/s, with seniors; e) adult male/s, adult females, with seniors; and f) adult female/s, adult males, with seniors
**"Other adult combinations - with children" include a) multiple adults, with children, with seniors; b) adult female/s, with children, with senior/s; and c) adult male/s, with children, with senior/s

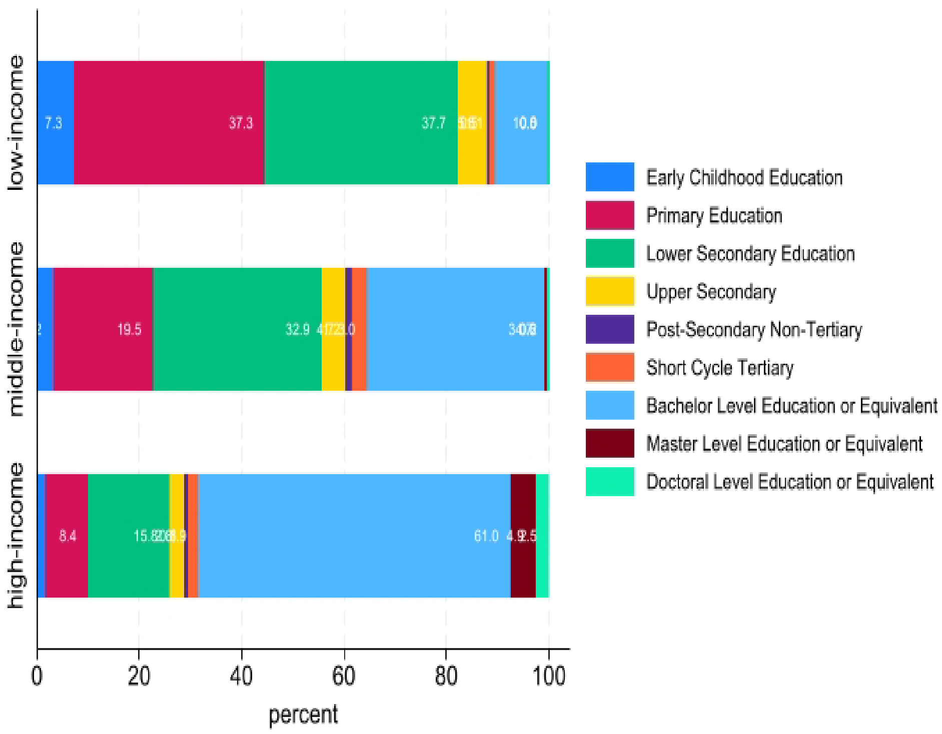
In contrast to low-income and middle-income households, the most common typology among upper-income households is "Other adult combinations - no children" (22.6%), which includes various combinations of adults and seniors living together without children, suggesting that upper-income households tend to have smaller, multi-generational families or consist of adult individuals living together. The data also shows that solo-parent households, particularly those headed by females with children, are more common among low-income households (1.21%) compared to middle-income (1.06%) and upper-income (0.47%) households.

Furthermore, the presence of seniors in households is more prevalent among upper-income households, as evident from the higher percentages in typologies such as "Senior(s) only - no children" (7.09%) and "Other adult combinations - no children" (22.62%), which includes combinations of adults and seniors. These findings suggest that household composition in the Philippines varies significantly across income groups, with larger, multi-generational families being more common among low-income households, while upper-income households tend to have smaller, adult-oriented family structures. The data also highlights the prevalence of single-parent households among low-income families and the higher presence of seniors in upper-income households. Further breakdowns by urban-rural location do not generally show variation in household composition (unlike income class disaggregation).

2.4. Educational Attainment

The middle-class has significantly higher levels of educational attainment compared to the low-income class (**Figure 6**). In 2021, 40.6% of middle-class Filipinos aged 15 and above had completed college education, compared to only 14.5% of their low-income counterparts (and 66.7% of counterparts in high-income class). Moreover, 35.1% of the middle-class had completed secondary education, while among the low-income class, 45.8% and 27.7% had completed secondary and primary education, respectively.

Figure 6. Educational attainment of persons 15 years and older by income class: 2021

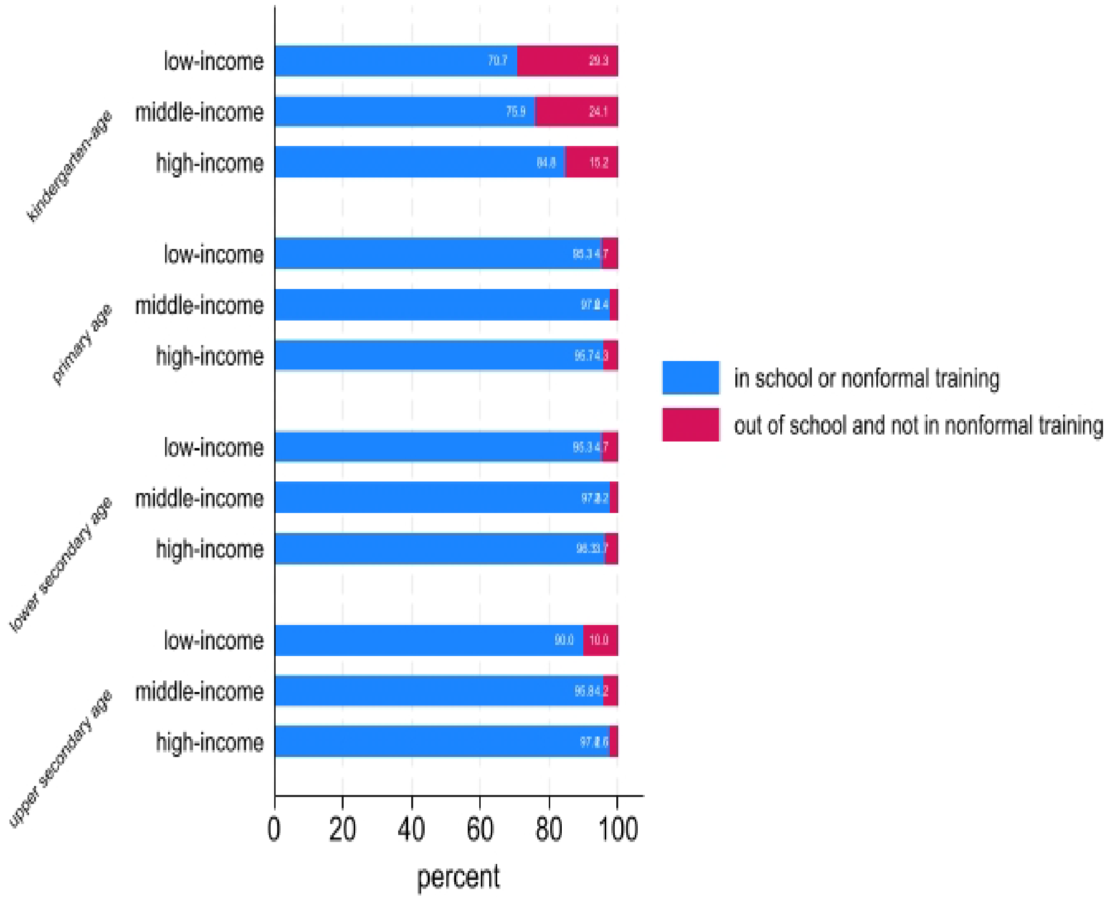


Note: Authors' calculations from 2021 FIES

2.5. Out-of-School Children

As of 2022, while the overall share of out-of-school children among middle-income families is relatively low (3.9%), there are still significant challenges in ensuring early childhood education, particularly for 5-year-olds. The data from the 2021 FIES-LFS merged file (see **Figure 7**) suggests that nearly a quarter (24.1%) of 5-year-old children from middle-income families are not attending school, which is a cause for concern.

Figure 7. In-school and Out-of-school Children, by age group and by income class: 2021



Note: Authors' calculations from 2021 FIES

This finding highlights the importance of investing in early childhood education and ensuring that children from middle-income families have access to quality pre-primary education. Research has shown that early childhood education can have significant long-term benefits, including improved cognitive and social-emotional development, better academic performance, and higher earnings later in life (Heckman 2006; Yoshikawa *et al*. 2013).

The relatively low rates of out-of-school children among primary-aged (2.4%), lower secondary-aged (2.2%), and upper secondary-aged (4.2%) children from middle-income families suggest that once children enter the formal education system, they are more likely to continue their education. However, the slightly higher rate among upper secondary-aged children indicates that there may be some challenges in retaining students through the completion of secondary education.

In contrast, the data for low-income families paints an even more troubling picture. The overall share of out-of-school children aged 5 to 17 is nearly double that of middle-income families (7.1% vs. 3.9%). The situation is particularly dire for 5-year-olds, with 29.3% not attending school, and upper secondary-aged children, with 10.0% out of school. These findings underscore the need for targeted interventions and support for low-income families to ensure that their children have access to education at all levels.

Addressing the disparities in educational access and attainment between middle-income and low-income families is crucial for promoting inclusive growth and social mobility. Policymakers should focus on expanding access to quality early childhood education, particularly for low-income families, and providing support to help students from disadvantaged backgrounds complete secondary education, especially through targeted subsidies, scholarships, and conditional cash transfer programs (Fiszbein and Schady 2009).

2.6. Labor, Employment and Income Sources

While the unemployment rate has been a traditional metric of the labor market, in the Philippines, unemployment is not solely the problem of low-income families; it is also an issue among the middle-class, whose unemployment rate is nearly that (6.7%) of the low-income class (6.9%). Unemployment is especially higher among females for both the low- and middle-income class, compared to male counterparts, as of 2021. Further, females have low labor force participation rates compared to males across income groups. **Table 2** provides the distribution of persons aged 15 and over by income class, and by their employment status (including those not economically active), while **Table 3** provides some select labor and employment statistics.

Table 2. Distribution of Filipinos aged 15 and over by sex, by income class, and by employment status : 2021

	Low	Middle	High	Total
Employed Male	2,490,131	21,930,494	2,831,428	27,252,053
Unemployed Male	152,015	1,499,647	140,150	1,791,813
Total Male Not in Labor Force	1,017,423	9,317,710	1,282,193	11,617,326
Total Male	3,659,569	32,747,851	4,253,772	40,661,192
Employed Females	1,160,722	14,075,794	2,847,245	18,083,761
Unemployed Females	117,054	1,071,958	83,561	1,272,573
Total Females Not in Labor Force	2,286,899	17,391,271	1,923,858	21,602,028
Total Female	3,564,676	32,539,022	4,854,664	40,958,362
Employed (Both Sexes)	3,650,853	36,006,288	5,678,673	45,335,814
Unemployed (Both Sexes)	269,070	2,571,605	223,711	3,064,385
Not in Labor Force (Both Sexes)	3,304,322	26,708,981	3,206,051	33,219,354
Total (Both Sexes)	7,224,245	65,286,873	9,108,435	81,619,554

Note: Authors' calculations from 2021 FIES-LFS merged file

Table 3. Key Labor and Employment Statistics for Filipinos aged 15 and over by sex, by income class: 2021

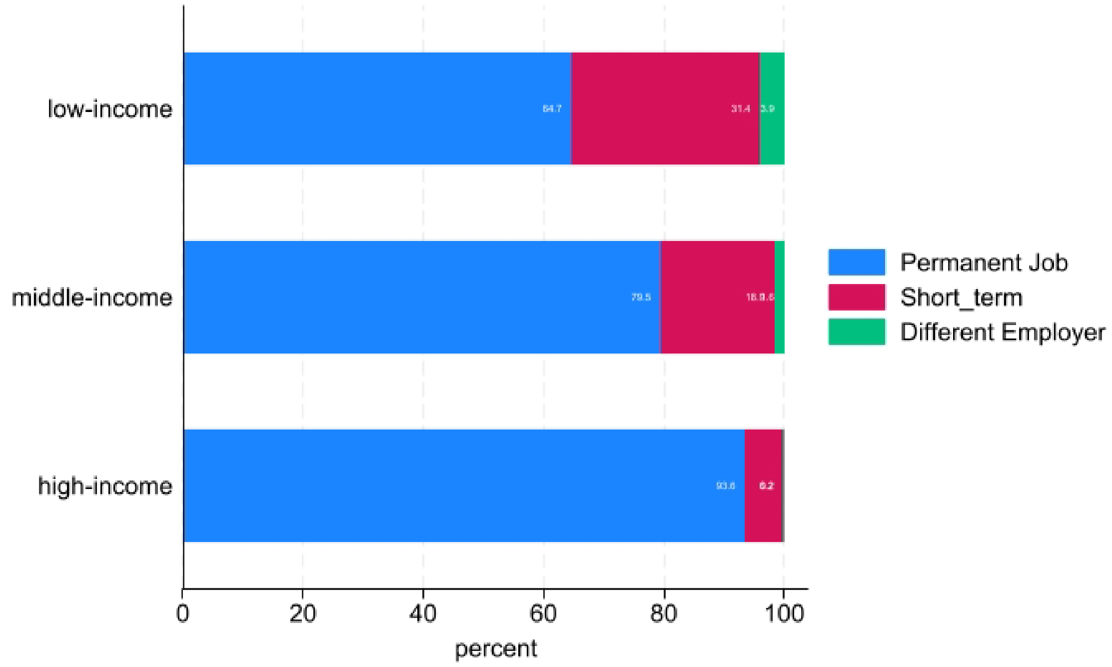
Indicator	Sex	Low	Middle	High	Total
Unemployment Rate	Males	5.8	6.4	4.7	6.2
	Females	9.2	7.1	2.9	6.6
	Both Sexes	6.9	6.7	3.8	6.3
Labor Force Participation Rate	Males	72.2	71.5	69.9	71.4
	Females	35.8	46.6	60.4	47.3
	Both Sexes	54.3	59.1	64.8	59.3
Average Hours at Work	Males	35.9	41.6	43.8	41.3
	Females	31.0	41.8	45.0	41.6
	Both Sexes	34.3	41.7	44.4	41.4
Under-employment Rate	Males	28.6	18.1	8.6	18.1
	Females	24.3	14.4	6.5	13.8
	Both Sexes	27.3	16.7	7.6	16.4

Note: Authors' calculations from 2021 FIES-LFS merged file

Hours at work are much lower for the low-income class than those from the middle- and high-income classes, by at least 8 hours (for both sexes), and with the differential even higher for females (around 11 hours between low- and middle-income class, and around 14 hours between low and high-income classes). Thus, about a quarter of low-income workers (higher among men) are underemployed, i.e., employed persons who want more hours of work, an additional job, or a new job with longer hours.

The middle-class is more likely to be engaged in formal, salaried employment compared to the low-income class **(Figure 8)**. 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.

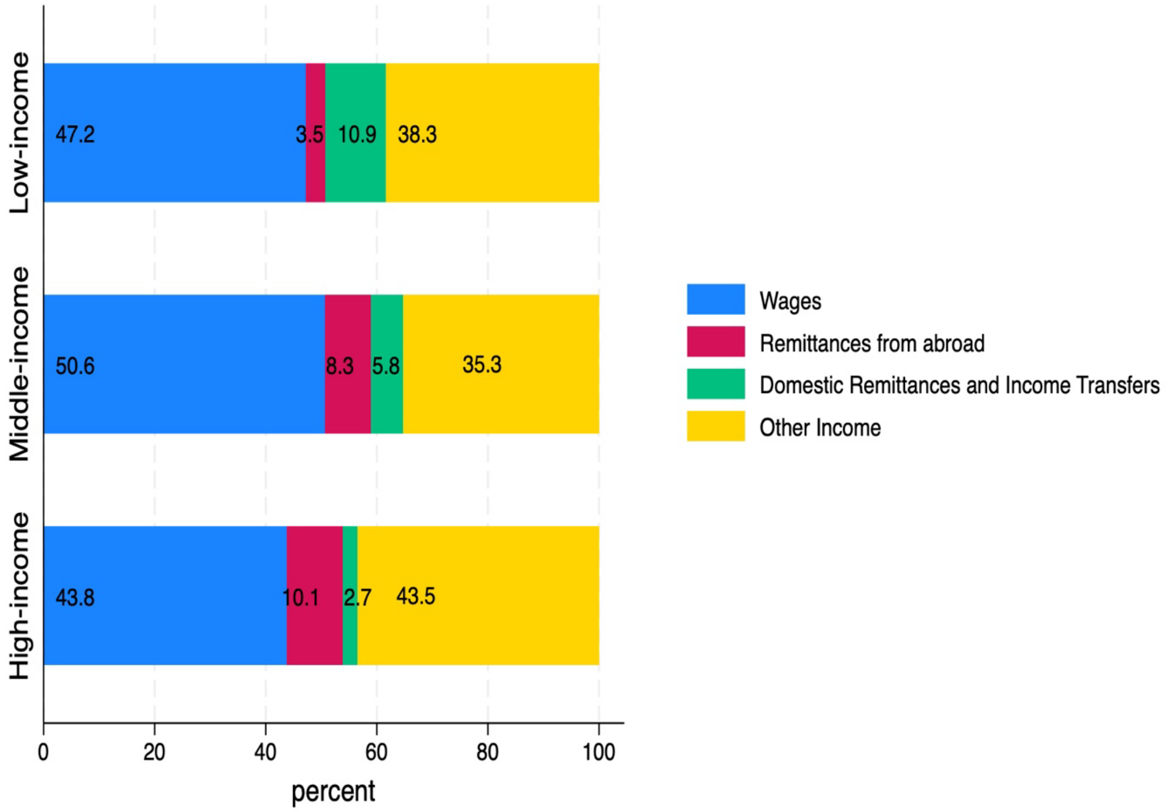
Figure 8. Nature of employment of persons aged 15 and over, by income class: 2021



Note: Authors' calculations from 2021 FIES-LFS merged file

Figure 9 shows that the primary sources of income for middle-class households are wages and salaries (50.6%), followed by entrepreneurial activities (24.0%) and overseas remittances (8.3%). 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%).

Figure 9. Primary sources of household income, by income class: 2021



Note: Authors' calculations from 2021 FIES

2.7. Overseas Filipinos and Contribution to Family Income

Overseas Filipino Workers (OFWs) play a significant role in the income of Filipino families. According to the data presented in **Table 4**, around 5.1% of Filipino families have an OFW. The presence of an OFW in a family varies across income clusters, with high-income families (9.2%) having a much higher rate compared to middle-income (4.9%) and low-income (1.3%) families. However, the majority of families with OFWs belong to the middle-class (74.7%), with approximately 30% each in the upper-middle and middle-income families.

Table 4. Distribution of Families by Income Cluster and Presence of Overseas Filipino Worker: 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**

Note: Authors' calculations from 2021 FIES

The data in **Table 5** reveals that cash remittances from abroad contribute significantly to family income in the Philippines, accounting for about 7.2% of the average total family income. The contribution of remittances to family income increases with income, reaching approximately 10.1% among families in the upper middle-income cluster. As much as 8.5 percent of total income of both middle-income and high-income families come from overseas remittances; this is more than double the shares of domestic remittances to total income for middle-class (3.9%) and high-income families (1.9%). Meanwhile, for low-income families, domestic remittances (9.0%) contribute a bigger share to total family income compared to overseas remittances (4.0%).

Table 5. Average Remittances Received by Families and Average Family Income by Income Cluster :2021

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

Note: Authors' calculations from 2021 FIES

These findings underscore the crucial role that OFWs and their remittances play in supporting Filipino families across various income levels. The middle-class, in particular, benefits greatly from the presence of OFWs and the financial support they provide. Remittances from abroad not only contribute to the overall income of Filipino families but also help in alleviating poverty and improving the standard of living for many households.

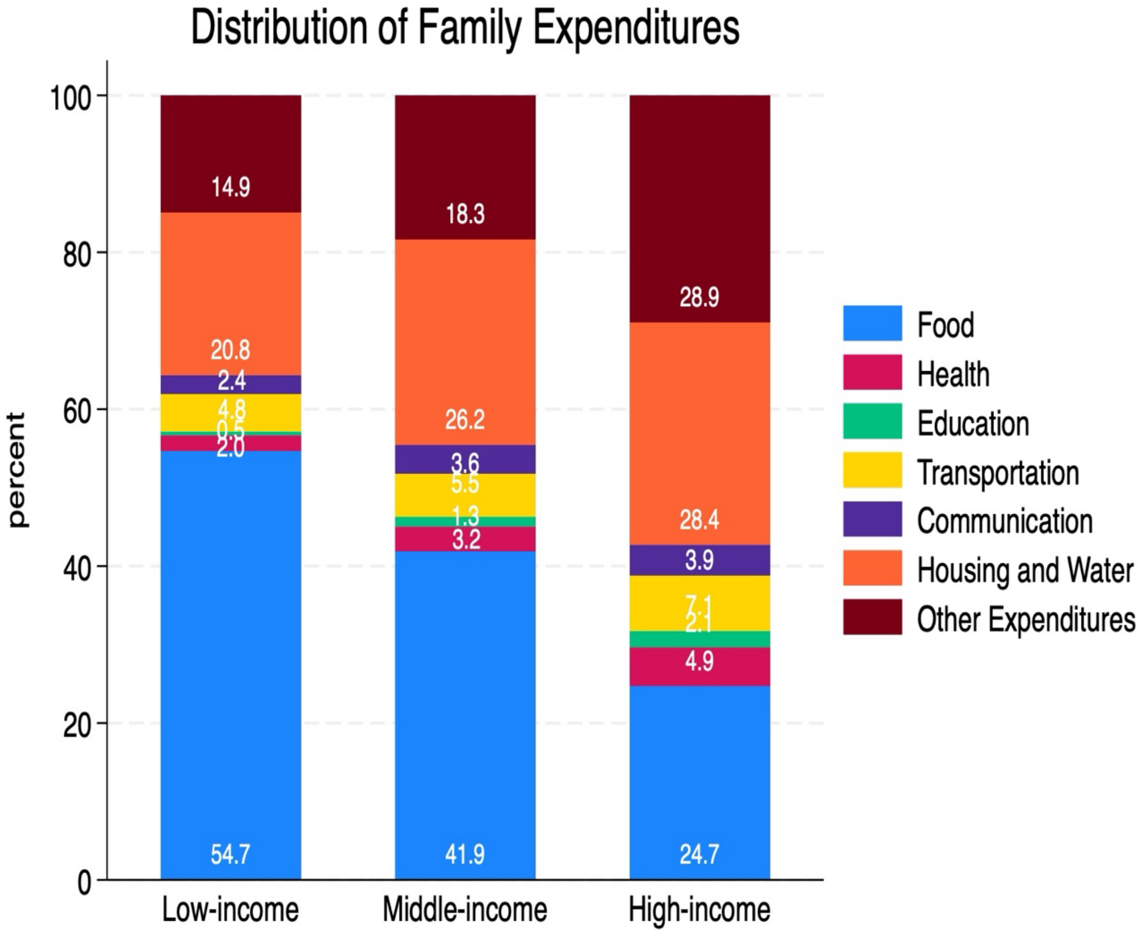
However, it is important to note that the reliance on remittances from OFWs may also have some drawbacks. The separation of family members due to overseas employment can have social and emotional consequences (Albert *et al*. 2023). Additionally, the dependence on remittances may make families vulnerable to economic shocks in the host countries where OFWs are employed.

Policymakers should consider these factors when developing strategies to support and protect OFWs and their families. Efforts should be made to create more domestic employment opportunities, promote skills development, and foster an environment conducive to business and entrepreneurship. By doing so, the Philippines can work towards building a more resilient and self-sufficient economy while still recognizing the valuable contributions of OFWs to their families and the nation as a whole.

2.8. Expenditure Patterns

Figure 10 illustrates that middle-class households allocate a larger share of their expenditure to education (1.3%), health (3.2%), and transportation (8.8%) compared to low-income households (0.5%, 2.0%, and 5.2%, respectively). However, their spending on these items is still lower than that of high-income households (2.1%, 4.9%, and 11.6%, respectively).

Figure 10. Share of Family Expenditures, by income class: 2021

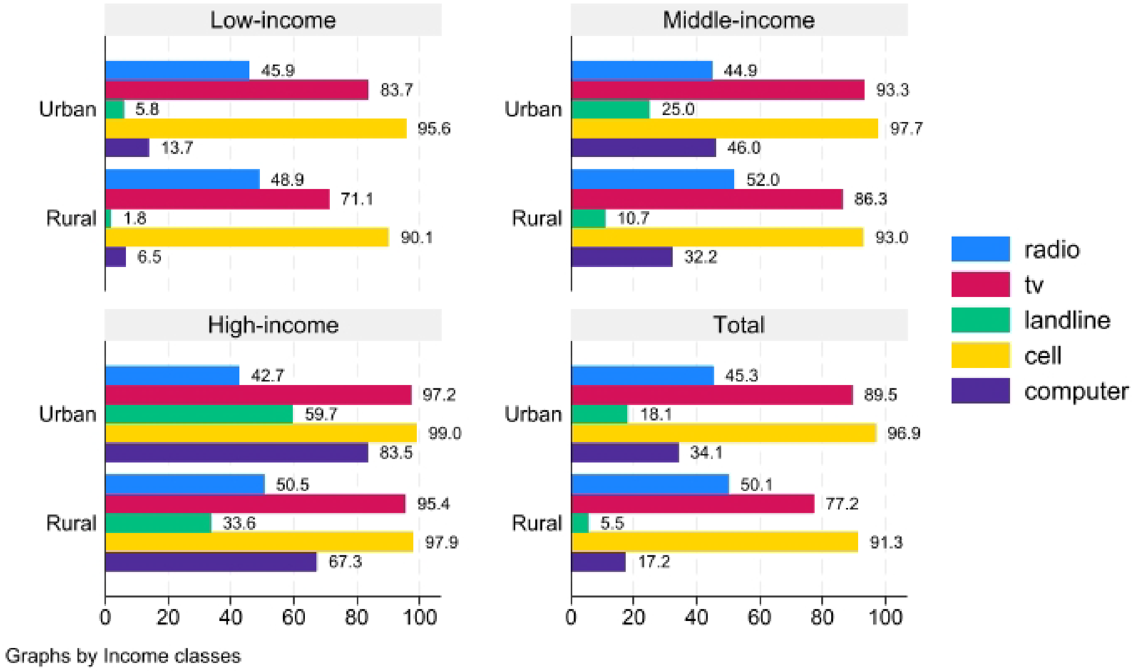


Note: Authors' calculations from 2021 FIES

2.9. Asset Ownership and Access to Amenities

Middle-class households have higher levels of asset ownership and access to amenities compared to low-income households (**Figure 11**). In 2021, 98% of middle-class households in urban areas owned a mobile phone, 93% owned a television, and 46% owned a computer. In rural areas, these figures were slightly lower at 93%, 86%, and 32%, respectively.

Figure 11. Asset ownership of households, by location and by income class: 2021



Note: Authors' calculations from 2021 FIES

Access to safe drinking water is also higher among middle-class households, with 81.3% having access to an improved water source (piped water, protected wells, or bottled water) compared to 59.4% of low-income households (**Table 6**).

Table 6. Household sources of drinking water, by income class: 2021

Sources of Drinking Water	Low - income	Middle-income	High-income	All Households
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	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

Note: Authors' calculations from 2021 FIES

2.10. Impact of the COVID-19 Pandemic

The COVID-19 pandemic has had a significant impact on the middle-class in the Philippines. As simulated in Albert *et a*l. (2020) and given actual data from the 2021 FIES-LFS, many middle-class households have experienced job losses, reduced incomes, and increased expenditure on health and education. The pandemic has also highlighted the vulnerability of some middle-class households, particularly those in the lower-middle-income segment, to falling back into poverty.

Data from the 2021 FIES suggests that the pandemic has reversed some of the gains in middle-class expansion achieved in recent years. The share of the middle-class fell from 43.5% in 2018 to 39.8% in 2021, indicating that some middle-class households have slipped into the low-income category due to the economic fallout from the pandemic.

This profile of the Philippine middle-class highlights its growing size and importance in the country's economic and social landscape. However, it also underscores the challenges in sustaining middle-class growth and the vulnerability of some middle-class households to economic and other shocks. The next section looks into a pathway for middle-class expansion in the Philippines and identifies policy levers for fostering a stronger, more resilient middle-class.

Pathway for Middle-class Expansion

A general trajectory of wealth creation

Economic growth has been widely recognized as a fundamental driver of middle-class expansion (and concomitantly poverty reduction). In a standard, one-sector neoclassical growth model, growth boils down to capital accumulation a la Solow (1954). This is, however, only a very basic representation of growth: in fact, the economy is divided into sectors, and is situated within a wider global economy, which completely overhauls the simplistic narrative of investment-driven growth.

An important dimension of growth is the change in economic structure. As countries experience sustained economic growth, they undergo structural transformations that shift employment from low-productivity sectors, such as agriculture, to higher-productivity sectors, such as manufacturing and services (Lewis, 1954; Chenery, 1960). This process creates new opportunities for higher-paying jobs and entrepreneurship, which can lift households into the middle-class.

The importance of industrialization and the "big push" for economic growth and middle-class expansion has been emphasized in the literature (Murphy *et al*. 1989; Acemoglu and Zilibotti 1997). A study by Cheremukhin *et al*. (2015) highlights the role of industrialization in driving China's remarkable economic growth and the rise of its middle-class since the 1950s.

Two additional dimensions of industrialization, particularly the East Asia “miracle economies”, was **export orientation** (Cherif and Hasanov 2019); as well as **diversification and increasing product sophistication** (Felipe 2015). Export orientation contrasts the pursuit of industrialization based on import substitution in Latin America, Africa, and Asia, vestiges of which can still be found in the policy regime of the Philippines today (Briones 2023).

Meanwhile, increasing product sophistication leads to a productivity-based growth, in turn allowing a steady growth of wages for a growing middle class.

In the Philippines, economic growth has been averaging 6.4% annually between 2010 and 2019 (World Bank 2021), but this performance was interrupted by the pandemic's impact. Even before the onset of COVID-19, the country's structural transformation has been slower compared to other East Asian economies, with a relatively large share of employment still in agriculture and a smaller manufacturing sector (Briones and Felipe 2013). Accelerating the pace of structural transformation and creating more productive employment opportunities in high-value sectors is critical for expanding the middle-class in the Philippines. Like India, the Philippines has been more of a service-driven economy, and the question is whether servicification of the economy (Serafica 2016, 2021), aside from other structural transformations, can be a means for further creation of new wealth and opportunities, amid the twin transition toward a greener and more digital future.

Pathways for wealth creation towards the mid-21st century

Structural transformation, export-orientation, diversification, and increasing product sophistication, remain essential for rapid and sustained growth. However, pursue of these today must adapt to megatrends conditioning the global economy, environment, and society, into the mid-21st century. This section examines an updated, multi-pronged pathway for middle-class expansion identified in the first section: (1) promoting social justice in natural resource management and climate change transition; (2) harnessing new opportunities in trade and investments for MSMEs; (3) ensuring a future-ready workforce and social protection; and (4) improving digital governance and public service delivery. Drawing on the literature and empirical evidence, it explores the role of these approaches for harnessing the size of the middle-class in the Philippines.

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

Promoting social justice in natural resource management and climate change transition is crucial for ensuring that the benefits of economic growth are shared equitably and that the costs of environmental degradation and climate change are not disproportionately borne by the poor and vulnerable. In the Philippines, natural resources such as forests, minerals, and fisheries are important sources of livelihood for many communities, particularly in rural areas. However, unsustainable resource extraction, land conversion, and environmental degradation have led to the depletion of these resources and the marginalization of resource-dependent communities (Zafra-Calvo *et al*. 2019).

Climate change also poses significant risks to the Philippines, with rising sea levels, more frequent and intense natural disasters, and shifting rainfall patterns threatening livelihoods, food security, and infrastructure (Intergovernmental Panel on Climate Change [IPCC] 2022). Further, climate change has its macro-economic repercussions: an one-degree Celsius increase in the country’s annual mean temperature lowers aggregate economic output growth by an estimated 0.37 percentage point (ppt) in the short run.

Low-income and vulnerable communities, particularly those in coastal and rural areas, are also likely to be the most affected by these impacts (Abbas *et al.* 2020).

Policies and programs that promote sustainable resource management, secure land tenure, and community-based resource governance can help ensure that the benefits of natural resources are shared more equitably and that resource-dependent communities are not left behind (World Bank 2019). For instance, community-based forest management (CBFM) has been shown to improve forest conservation outcomes while also providing livelihood benefits to local communities (Rebugio *et al*. 2020). Similarly, investing in sustainable livelihoods and value chain development for resource-based products can create new opportunities for income generation and poverty reduction (Macqueen and Bolin 2018).

Climate change adaptation and mitigation measures are also crucial for building the resilience of vulnerable communities and ensuring a just transition to a low-carbon economy (IPCC 2022). This includes investing in climate-resilient infrastructure, promoting climate-smart agriculture and fisheries practices, and developing a transition plan for affected communities and workers in carbon-intensive industries (Mendoza *et al*. 2020). Mainstreaming climate change adaptation and disaster risk reduction in local development planning and budgeting can also help ensure that climate resilience is integrated into all aspects of development (Jha *et al*. 2018).

3.2. Harnessing New Opportunities in Trade and Investments for MSMEs

MSMEs play a vital role in the broad-based growth of the Philippine economy, as they account for 99.5% of all businesses and employing 63% of the workforce (Department of Trade and Industry [DTI] 2020). However, MSMEs often face significant barriers to growth and competitiveness, such as limited access to finance, markets, and technology (Aldaba 2019). Harnessing new opportunities in trade and investments, particularly through regional economic integration and global value chains, can help MSMEs overcome these barriers and create new pathways for middle-class expansion.

The Philippines' participation in regional trade agreements, such as the ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP), has opened up new markets for Philippine exports and investments. However, many MSMEs have yet to fully benefit from these opportunities due to limited awareness, capacity, and resources (Aldaba 2019). Policies and programs that promote MSME internationalization, such as export promotion, trade facilitation, and capacity building, can help more MSMEs access regional and global markets and integrate into global value chains (Aldaba 2019).

For instance, the Philippine Export Development Plan 2018-2022 aims to increase the country's exports by providing targeted support to MSMEs in high-potential sectors such as electronics, food, and services (DTI 2018). The plan includes initiatives such as export coaching, trade financing, and market intelligence to help MSMEs overcome barriers to internationalization. Similarly, the ASEAN SME Academy provides online training and resources to help MSMEs in the region develop their export capabilities and connect with potential buyers and partners (Association of Southeast Asian Nations [ASEAN] 2021).

Attracting foreign direct investment (FDI) can also help create new opportunities for MSMEs, particularly through linkages with multinational enterprises and technology transfer. However, the Philippines has historically lagged behind its regional peers in attracting FDI, with restrictive foreign ownership rules and inadequate infrastructure cited as key constraints

(Aldaba 2020). Reforms that reduce barriers to FDI, improve the ease of doing business, and develop a more competitive and innovation-driven economy can help attract more high-quality investments that benefit MSMEs and support middle-class growth.

For instance, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which was enacted in 2021, aims to improve the country's investment climate by reducing corporate income tax rates and rationalizing fiscal incentives (Department of Finance [DOF] 2021). The law also includes provisions to promote innovation and research and development (R&D), such as tax deductions for R&D expenses and incentives for the establishment of innovation hubs and centers. These reforms are expected to attract more FDI and create new opportunities for MSMEs to participate in global value chains and benefit from technology transfer and spillovers.

3.3. Ensuring Future-Ready Workforce and Social Protection

Human capital development is a key enabler of middle-class growth. Increases in Gross Domestic Product (GDP) per capita are associated with a change in economic structure towards sectors that are intensive in the use of high-skilled labor (i.e., *skill-based structural change*) (Buera et al, 2022). Higher levels of educational attainment are associated with better employment prospects, higher incomes, and greater social mobility (Becker 1964; Schultz 1961). Investing in human capital, particularly in quality education and training, can help individuals acquire the skills and competencies needed to access higher-paying jobs and move into the middle-class.

The Philippines has made significant progress in expanding access to education in recent decades. However, challenges remain in terms of education quality and relevance to labor market needs (David and Albert 2015; Albert *et al*. 2023). Strengthening the education system, promoting skills development, and fostering closer linkages between education and industry can help build a skilled workforce that can drive middle-class expansion.

Rapid technological advancements and changing skill requirements are transforming the nature of work and creating new challenges and opportunities for the workforce. In the Philippines, the COVID-19 pandemic has accelerated the pace of digital transformation and highlighted the importance of digital skills and resilient social protection systems (World Bank 2021). Ensuring a future-ready workforce and social protection is therefore crucial for enabling more Filipinos to adapt to these changes and benefit from the opportunities of the digital economy.

Investing in education and skills development, particularly in science, technology, engineering, and mathematics (STEM) and digital skills, can help build a workforce that is equipped to meet the demands of the future economy (World Bank 2020). For instance, the Philippine government's National Technical Education and Skills Development Plan 2018-2022 aims to develop a globally competitive and future-ready workforce by promoting industry-academe linkages, work-based learning programs, and lifelong learning opportunities (Technical Education and Skills Development Authority [TESDA] 2018). The plan also includes initiatives to promote digital literacy and skills development, such as the establishment of innovation centers and the integration of digital skills in technical-vocational education and training (TVET) programs.

Strengthening social protection systems, particularly in the context of increasing informality and the gig economy, is also crucial for ensuring that workers are able to manage risks and transitions in the future of work (International Labour Organization [ILO] 2020). Policies and programs that extend social protection coverage to informal and gig workers, promote portable benefits and skills certification, and provide support for job search and training can help build a more inclusive and resilient social protection system that supports the growth of the middle-class (ILO 2020).

For instance, the Philippine government's Universal Social Protection Program aims to provide a package of social protection benefits to all Filipinos, including those in the informal and gig economy (NEDA 2021). The program includes initiatives such as the Social Security System (SSS) Reform Act, which aims to expand coverage and benefits for informal sector workers, and the Unemployment Insurance Scheme, which provides temporary income support and job search assistance to displaced workers. These reforms are expected to help workers manage risks and transitions in the changing world of work and support the growth of the middle-class.

3.4. Improving Digital Governance and Public Service Delivery

Digital technologies are transforming economies and societies, creating new opportunities for entrepreneurship, employment, and learning. The digital economy, which encompasses digital infrastructure, digital platforms, and digital financial services, has the potential to drive economic growth, create jobs, and promote financial inclusion (World Bank 2016). However, there is a risk of a growing digital divide, where some segments of the population, particularly low-income and rural households, are left behind. Ensuring equitable access to digital infrastructure, devices, and skills is crucial for enabling more Filipinos to participate in the digital economy and move into the middle-class.

The Philippines has made progress in expanding internet connectivity, with rising broadband and mobile penetration rates. However, digital divides persist, with lower access and usage rates among low-income and rural households (Albert *et al*. 2016). Policies and programs that promote digital inclusion, such as investments in rural broadband, digital literacy training, and affordable internet access, can help bridge the digital divide and create more inclusive pathways to the middle-class.

Digital platforms, such as e-commerce marketplaces, digital labor platforms, and online freelancing platforms, are creating new opportunities for entrepreneurship and employment (Albert 2022). These platforms can help small businesses and individual entrepreneurs access wider markets, reduce transaction costs, and increase efficiency (ILO 2021). Digital labor platforms, such as Upwork and Freelancer, are also providing new opportunities for skilled workers to access global markets and earn higher incomes (Graham *et al*. 2017). Policies that support the development of digital platforms, such as streamlining regulations, providing training and support for digital entrepreneurs, and promoting digital trade, can help more Filipinos benefit from the digital economy.

Digital financial services, including mobile money, digital payments, and digital lending, are also playing an increasingly important role in promoting financial inclusion and supporting the growth of the middle-class (Demirgüç-Kunt *et al*. 2018). These services can help households access formal financial services, save money, and access credit for productive investments. In the Philippines, the use of digital financial services has been growing rapidly, driven by the increasing adoption of smartphones and the expansion of mobile money services (Bangko

Sentral ng Pilipinas [BSP] 2021). Policies that promote the development of digital financial services, such as establishing enabling regulatory frameworks, promoting interoperability among service providers, and ensuring consumer protection, can help expand access to financial services and support middle-class growth.

Digital currencies, such as cryptocurrencies and central bank digital currencies (CBDCs), are also emerging as potential tools for promoting financial inclusion and supporting economic growth. Cryptocurrencies, such as Bitcoin and Ethereum, are decentralized digital assets that can be used for peer-to-peer transactions without the need for intermediaries (Nakamoto 2008). While the use of cryptocurrencies is still limited in the Philippines, there is growing interest in their potential to promote financial inclusion and support cross-border transactions (BSP 2021). CBDCs, which are digital versions of fiat currencies issued by central banks, are also being explored as a way to promote financial inclusion, reduce transaction costs, and enhance the efficiency of monetary policy (Bank for International Settlements 2020). The BSP is currently exploring the feasibility of issuing a CBDC and has launched a pilot project to test its potential applications (BSP 2021).

Digital technologies are also transforming the way governments interact with citizens and deliver public services. In the Philippines, the COVID-19 pandemic has accelerated the adoption of digital technologies in the public sector and highlighted the importance of digital governance and public service delivery (World Bank 2021). Improving digital governance and public service delivery can help enhance the efficiency, transparency, and accountability of government services, and create new opportunities for citizen engagement and participation.

Investing in digital government infrastructure, such as e-government platforms, digital identity systems, and data management systems, can help improve the quality and accessibility of public services, particularly for underserved and marginalized communities (Cerna *et al*. 2021). For instance, the Philippine government's National ID System (PhilSys), implemented by the Philippine Statistics Authority (PSA), aims to provide a unique digital identity to all Filipinos, which can be used to access a wide range of government and private sector services (PSA 2021). The system is expected to improve the targeting and delivery of social protection programs, reduce fraud and corruption, and promote financial inclusion.

Promoting digital literacy and skills development among government workers and citizens can also help ensure that the benefits of digital government are widely shared and that no one is left behind (Sirucek *et al*. 2022). For instance, the Philippine government's Digital Literacy Program aims to provide digital skills training to one million Filipinos, particularly those in underserved and marginalized communities (Department of Information and Communications Technology [DICT] 2021). The program includes initiatives such as community-based digital literacy training, online learning platforms, and partnerships with the private sector to provide digital devices and connectivity.

Policies and programs that promote open government data, citizen feedback and participation, and digital inclusion can also help foster a more transparent, accountable, and responsive government that better serves the needs of the middle-class and all Filipinos (World Bank 2020). For instance, the Philippine government's Freedom of Information (FOI) Program aims to promote transparency and accountability by providing citizens with access to government information and data (Presidential Communications Operations Office [PCOO] 2021). The program includes an online portal where citizens can request information from government agencies, as well as capacity building and awareness raising initiatives to promote the use of the FOI system.

Strengthening cybersecurity and data privacy frameworks, and ensuring that digital government initiatives are inclusive and user-centered, will also be crucial for building public trust and confidence in digital government (Basu *et al*. 2022). For instance, the Philippine government's National Cybersecurity Plan 2022 aims to strengthen the country's cybersecurity capabilities and protect critical infrastructure and services from cyber threats (DICT 2019). The plan includes initiatives such as the establishment of a national cybersecurity operations center, the development of a cybersecurity workforce, and the promotion of cybersecurity awareness and education.

While the digital economy offers significant opportunities for promoting inclusive growth and expanding the middle-class, it also presents challenges that need to be addressed. These include the need to ensure data privacy and security, protect consumers from fraud and exploitation, and manage the risks associated with digital currencies (World Bank 2016). Policymakers will need to develop appropriate regulatory frameworks and governance mechanisms to harness the benefits of the digital economy while mitigating its risks.

In summary, increased digitalization, from use of digital platforms, to digital financial services and digital currencies, to digital governance, have the potential to drive economic growth, create jobs, and promote financial inclusion in the Philippines. By bridging the digital divide and creating an enabling environment for digital innovation and entrepreneurship, policymakers can help more Filipinos benefit from the opportunities of the digital economy and move into the middle-class. However, this will require a comprehensive approach that addresses the challenges of digital inclusion, consumer protection, and regulatory governance.

Summary and Policy Implications

This background paper has provided a comprehensive profile of the middle-class in the Philippines, examining its size, growth, characteristics, and determinants. Using a definition of the middle-class as households with per capita income between twice and twelve times the official poverty line, it finds that the middle-class has expanded significantly over the past three decades, from 28.5% of the population in 1991 to 39.8% in 2021. However, the growth of the middle-class has not been consistent over time. Between 2015 and 2018, the middle-class expanded rapidly, with its share increasing from 40.5% to 43.5%. The COVID-19 pandemic has reversed some of these gains, with the share of the middle-class falling to 39.8% in 2021.

The latest profile of the middle-class, based on 2021 data from the 2021 FIES-LFS merged file, reveals several key insights. The middle-class is predominantly urban, with higher levels of educational attainment, more engagement in formal employment, and higher ownership of assets and access to amenities compared to the low-income class. However, there are significant regional variations, with some regions, such as NCR, CALABARZON, and Central Luzon, having a larger middle-class presence than others.

The background paper also identified that achieving the vision of a predominantly middle-class society in the country will require a comprehensive and multi-pronged approach that addresses the key challenges and opportunities facing the country. This includes promoting social justice in natural resource management and climate change transition, harnessing new opportunities in trade and investments for MSMEs, ensuring a future-ready workforce and social protection, and improving digital governance and public service delivery. With these approaches, the Philippines can create new pathways for middle-class expansion and build a more resilient, equitable, and prosperous society for all Filipinos. This will require effective leadership, coordination, and collaboration across government, private sector, civil society, and development partners, and a sustained commitment to reforms and investments over the long term.

Clearly, there is a need for a broader perspective for examining the many factors that influence the expansion of the middle-class, taking into account issues of power, social justice, and the limitations of traditional economic approaches (Deaton 2022). A more interdisciplinary and historically-informed approach is necessary to fully understand the challenges and opportunities faced by the middle-class.

Based on these findings, several specific recommendations are given for fostering a stronger and more inclusive middle-class in the Philippines:

1. Promoting social justice in natural resource management and climate change transition:	a. Strengthen community-based natural resource management frameworks, ensuring equitable access to and benefit-sharing from natural resources for local communities. b. Invest in sustainable livelihoods and value chain development for resource-dependent communities, particularly in sectors such as agroforestry, ecotourism, and sustainable fisheries.

	c. Mainstream climate change adaptation and disaster risk reduction in local development planning and budgeting, prioritizing investments in climate-resilient infrastructure and social protection for vulnerable communities. d. Develop a just transition plan for workers and communities affected by the shift towards a low-carbon economy, including skills training, social protection, and alternative livelihood support.
2. Harnessing new opportunities in trade and investments for MSMEs:	a. Strengthen export promotion programs and trade facilitation measures to help MSMEs access regional and global markets, particularly in high-potential sectors such as electronics, food, and services. b. Provide targeted support to MSMEs in the form of export coaching, trade financing, and market intelligence to help them overcome barriers to internationalization. c. Implement reforms to reduce barriers to foreign direct investment and improve the ease of doing business, particularly in sectors with high potential for MSME participation and linkages. d. Promote innovation and technology adoption among MSMEs through tax incentives, innovation hubs, and technology extension programs.
3. Ensuring a future-ready workforce and social protection	a. Invest in quality education and skills development programs that are responsive to the changing demands of the labor market, particularly in STEM and digital skills. b. Strengthen industry-academe linkages and promote work-based learning programs, such as apprenticeships and internships, to improve the employability of graduates. c. Expand social protection coverage to informal and gig workers through initiatives such as the SSS Reform Act and the Unemployment Insurance Scheme. d. Promote lifelong learning and reskilling opportunities for workers, particularly those affected by automation and digital disruption.
4. Improving digital governance and public service delivery:	a. Accelerate investments in digital infrastructure, particularly in rural and underserved areas, to ensure equitable access to digital services and opportunities.

	b. Implement the PhilSys to improve the targeting and delivery of social protection programs and promote financial inclusion. c. Strengthen digital literacy and skills development programs for government workers and citizens, particularly in underserved and marginalized communities. d. Promote open government data and citizen engagement through initiatives such as the Freedom of Information Program and online feedback mechanisms. e. Strengthen cybersecurity and data privacy frameworks to build public trust and confidence in digital government services.

By implementing these specific recommendations, the Philippines can create a more enabling environment for middle-class expansion while addressing the key challenges and opportunities in each of the four multi-pronged approaches. However, it is important to note that these recommendations are not exhaustive and should be adapted to the specific context and priorities of the country.

Moreover, the effective implementation of these recommendations will require strong political will, sustained investments, and close collaboration among government agencies, the private sector, civil society organizations, and development partners. It will also require a commitment to evidence-based policymaking, regular monitoring and evaluation, and continuous learning and adaptation.

However, realizing this vision will require strong leadership, political will, and effective collaboration among policymakers, businesses, civil society organizations, and development partners. It will also require a long-term perspective and a willingness to invest in the country's human capital, institutions, and infrastructure, even in the face of short-term challenges and competing priorities.

Ultimately, by putting in place a comprehensive and integrated set of policies and programs across these four key areas, the Philippines can build a stronger, more resilient, and more inclusive middle-class that can serve as a key driver of sustainable and equitable development in the years to come.

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Technical Annex: Methodology and Data Sources for Defining (and Profiling) the Middle-class

This background paper adopts an income-based definition of the middle-class, following the methodology of Albert *et al*. (2015, 2018a). The income-based approach involves dividing the income distribution into seven clusters based on per capita income relative to the official poverty lines, which vary across provincial urban/rural areas to account for differences in living costs.

The choice of per capita income thresholds for defining the middle-class is a critical aspect of this methodology. There is no universally accepted definition, with various studies using different absolute and relative thresholds (see **Annex Table 1**).

Annex Table 1. Comparison of middle-income definitions (in USD 2005 PPP)

Absolute definition	Middle income
Milanovic and Yitzhaki (2002)	\$12 - \$50
Banerjee and Duflo (2008)	\$2 - \$10
Ravallion (2009)	\$2 - \$13
ADB (2010)	\$2 - \$20
Albert *et al*. (2015)	\$3.6 - \$24
Albert *et al*. (2018) and this Backgrond Paper	\$3.6 - \$19.2

Source: Albert *et al*. (2018a)

Albert et al. (2018) builds on the work of Albert et al. (2015) who defined the middle-class as those with per capita incomes between two to fifteen times the official poverty line. The lower threshold of two times the poverty line is justified based on several considerations:

- It aligns with commonly used absolute thresholds in the literature. For example, Ravallion (2009), Banerjee and Duflo (2008), and ADB (2010) use a lower threshold of USD 2 per person per day, which is approximately twice the international poverty line of USD 1 (in 1993 PPP).

- Empirically, the official poverty lines in the Philippines have been found to be slightly higher than the international poverty lines (Ravallion *et al.* 1991; Joliffe and Pyrdz 2016). Thus, using a multiple of the official lines provides a more appropriate benchmark for the country context.

- A per capita income of twice the poverty line represents a substantial buffer above subsistence level, enabling households to afford non-essential goods and services that are associated with a middle-class lifestyle.

- However, the upper threshold used by Albert et al. (2015) of fifteen times the poverty line is quite high, extending into the 98th income percentile in 2015 (see Figure 1). To refine this definition, the Albert *et al.* (2018) paper makes two adjustments:

1. The "middle middle" income cluster is revised to include those earning between four and seven times the poverty line (narrowed from four to nine times).

2. The upper threshold for the middle-class as a whole is lowered to twelve times the poverty line.

This revised definition improves on Albert et al. (2015) in two important ways. Firstly, it focuses the middle-class definition on the central part of the income distribution, covering households between the 58^{th} to 94^{th} income percentiles (based on 2015 data). This aligns better with the concept of the middle-class as the broad center of society. Secondly, The upper threshold of twelve times the poverty line, while still higher than some absolute thresholds in the literature, represents a reasonable cutoff for a country at the Philippines' stage of development. It is a compromise between the thresholds used by ADB (2010) of USD 20 and Ravallion (2009) of USD 13, when referenced to the international poverty line.

The resulting monthly family income range for a middle-class household of PHP 24,060 to PHP 144,360 (in 2021 prices for a family of 5) corresponds to the incomes of various middle-class occupations. For example, it would include families with at least one member who is a government employee ranked SG 7 (Administrative Assistant) to SG 27 (Director III), or those with two minimum wage earners in NCR.

In summary, the thresholds of Albert *et al*. (2018) used in this background paper aim to capture the middle-class in the Philippines as the broad center of the income distribution, with incomes substantially above subsistence levels but not extending into the very top percentiles. While any definition has limitations, this approach provides a empirically grounded and conceptually relevant basis for analyzing the trends, characteristics and role of the middle-class in the country's development. The thresholds can be further validated and refined as new data becomes available and as the country progresses economically.

Thus, following the methodology of Albert *et al.* (2018a), the income distribution into seven clusters based on per capita income relative to the official poverty lines, which vary across provincial urban/rural areas to account for differences in living costs. The income ranges for each cluster are defined as follows:

1. Poor: per capita income below the official poverty line
2. Low-income but not poor: per capita income between the poverty line and twice the poverty line
3. Lower middle: per capita income between two and four times the poverty line
4. Middle middle: per capita income between four and seven times the poverty line
5. Upper middle: per capita income between seven and twelve times the poverty line
6. Upper-income but not rich: per capita income between twelve and twenty times the poverty line
7. Rich: per capita income equal to or greater than twenty times the poverty line

These clusters are then grouped into three broad income classes, *viz*.,:
- Low-income: clusters 1 and 2
- Middle-income: clusters 3, 4, and 5
- High-income: clusters 6 and 7

The indicative family incomes for the seven clusters, and the three broad income classes are given in **Annex Table 2**.

Annex Table 2. Income classes, Indicative monthly family income and size of income class (families and 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 Magnitude in thousands (and in % of total)**	
				Families	**Persons**
1. Low-income	a. Poor	less than official poverty threshold	Less than PHP 12,030 per month	3,592 (13.6)	20,431 (18.3)
	b. 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)
2. Middle-income	c. 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)
	d. Middle middle-income	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)
	e. 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)
3. High-income	f. 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)
	g. Rich	at least equal to twenty times the poverty line	At least PHP 240,600	115 (0.4)	301 (0.3)

Note: Authors' calculations from Official Poverty Lines and the 2021 FIES

The primary data sources for this background paper are the FIES and the LFS, both conducted by the PSA. The FIES is a nationwide survey that collects detailed information on household income, expenditures, and other socioeconomic characteristics. It is conducted every three years, with the latest round available for 2021. The LFS, on the other hand, is a quarterly survey that collects data on employment, unemployment, and other labor market indicators.

For the analysis of the size, growth, and characteristics of the middle-class, data from the 2021 FIES were used. The study also used data from previous rounds of the FIES (1991, 2006, 2015, and 2018) to examine trends in the growth of the middle-class over time. To analyze the labor market characteristics of the middle-class, the study used data from the July 2021 round LFS, which was merged with the 2021 FIES using unique household identifiers.

In addition to these primary data sources, the study also drew on secondary data and literature from various sources, including government reports, academic publications, and international organizations, to provide context and support the analysis.

It is important to note that while the income-based definition used in this background paper provides a useful framework for analyzing the middle-class, it has some limitations. In particular, it does not fully capture the multidimensional nature of middle-class status, which may also be influenced by factors such as education, occupation, and social capital. Moreover, the use of per capita income as the basis for defining income clusters may not fully account for economies of scale within households or variations in the cost of living across different areas.

Despite these limitations, this income-based approach of defining the middle-class provides a consistent and comparable method for analyzing the middle-class across time and space, and has been widely used in the literature. By triangulating findings from this approach with insights from the literature and other data sources, this background paper provides a comprehensive and nuanced analysis of the middle-class in the Philippines and its role in the country's development trajectory, as well as the importance of widening the middle-class.