

The middle class in Argentina: dynamics, characteristics and implications for public policies

March 2023 – No. 64 | AFD Middle Classes Series

PITCH

Argentina is generally considered as the typical middle-class country in Latin America. Yet, while the successive crises that have hit the Argentinean economy over the four last decades have obviously affected both the size and stability of its middle class, academic studies are lacking on the consequences of these crises on socio-economic stratification and on middleclass preferences and expectations.

MOTIVATION

We want to propose a thorough examination of the middle classes, their characteristics, behaviors, aspirations and expectations, as well as the implications of their development in the design of public policies.

With this study we aim to fill the gap in terms of the studies that have been recently done on this subject by focusing on the most recent period. The project funded by the French Development Agency and conducted by a research team composed of Argentinean and French economists and sociologists examines the dynamics and characteristics of the middle class in Argentina and the related policy implications.

METHODOLOGY

We use an original three-step methodology combining quantitative and qualitative materials. The first step, using data from the Encuesta Permanente de Hogares ranging between 2003 and 2021, aimed to identify the middle class quantitatively from a multidimensional perspective, by first defining a middle-income group and then exploring its socio-economic structure based on information on education and labor market characteristics. To explore the mobility patterns and behavioral and aspirational traits of the middle class, the second step consisted in implementing an original qualitative household survey among 40 individuals sampled as being characteristic of the different components of the middle class identified in the previous step. Finally, in the third step, a second qualitative survey was conducted among twelve representatives of public and private institutions to collect information on public policies and market strategies in relation to the middle-class phenomenon.

RESULTS

First, the middle-income group (defined as households with daily per capita income between US\$10 and the 95th percentile of the income distribution) is

large in that it accounts for 77.5% of the urban population in 2018. The qualitative interviews of individuals also confirm strong self-identification with the middle class. However, looking beyond this apparent homogeneity, the quantitative analysis also reveals the fragmentation of the Argentinean middle-class with no less than five distinct middle-class subgroups being identified based on education and labor market characteristics: (i) the retired and inactive; (ii) the service employees; (iii) the self-employed and workers; (iv) the managers, professionals and employers and (v) the public employees. This fragmentation actually hides a form of polarization on the Argentinean middle class. On the one hand, the Argentinean upper middle class is composed of managers, professionals, employers and public employees all characterized by the highest levels of occupation, employment stability, education and income measured in the middle-income segment. At the extreme opposite, the service employees, self-employed and workers, and retirees all constitute the segment of lower and vulnerable middle class. They are characterized by relatively low levels of education and income, fragile (informal and/or self-employed) employment status and lack of access to social security.

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Geography: Argentina

Find out more about this project: <https://www.afd.fr/en/ressources/middle-class-argentina-dynamics-characteristics-and-implications-public-policies>

Key words: Middle Classes; Argentina, public policies, social mobility

Subject: Middle classes, public policies

Second, the analysis of short-term income dynamics reveals that the increase of the middle-income group in the 2000s was driven primarily by the expansion of the lower middle class as a result of sustained economic growth, recovery, formal employment and real wages increases and anti-poverty social policies. The predominance of the lower middle class undoubtedly explains why a large part of the middle class remains vulnerable during periods of crisis. Indeed, we show that this lower component of the middle class has experienced downward mobility, from 2017 onward, in a context of economic downturn and COVID-19 pandemic. This is particularly true for informal workers who were especially impacted and suffer from the fact that they are excluded from the existing schemes of social or fiscal support. Nonetheless, it should be noted that, even for the vulnerable components of the middle class, our qualitative interviews reveal an unambiguous and widely shared perception of upward intergenerational mobility.

Third, important socio-economic aspirational and behavioral markers of middle-class membership in Argentina are emphasized by the study, especially shared aspirations regarding diversification of consumption, access to homeownership, search for security or prioritization of education and health. Such commonalities tend to homogenize the middle class and may be viewed as part of its social identity.

Nevertheless, adopting these typical behavioral models remains tricky for the lower segments of the middle class (informal workers, self-employed) but also for the youngest respondents, notably regarding access to homeownership.

Fourth, the relationship between the Argentinean middle classes and the State is best described by political loyalty and high expectations. Although a clear divide between pro-State and pro-market segments of the middle class could be identified by the qualitative survey, the majority of the interviewees expressed their strong attachment to the State and the importance of ambitious fiscal and sectoral policies. Across the board, redistributive policies are widely considered as "unfair" by respondents, for they both favor "those at the bottom" and enrich "those at the top". Accordingly, more progressive taxes are expected by all middle-class segments as they would alleviate the tax pressure on consumption or production that they judge excessive. Still, although most respondents perceive themselves as "abandoned" by the State as they rely on poor-quality public services, all the segments are attached to the public sectors of education and health.

Fifth, the recent changes in the middle class are influencing the definition of public policies and private market strategies. The qualitative institutional survey notably highlights the recent

implementation of public or private programs dedicated specifically to households from the middle class. This is particularly true in the area of housing, with several policies or programs targeting the middle class and its lower components, such as *ProCreAr* which is a public housing scheme whose objective is to promote construction activity through the allocation of discounted loans to households with income between two and four times the minimum living wage. In the COVID-19 context, the middle class also benefits largely from public support policies that do not target it specifically, such as the ATP (*Asistencia de Emergencia al Trabajo y la Producción*) for salaried workers or the IFE (*Ingreso Familiar de Emergencia*) for small employers and the self-employed. Lastly, the institutional survey shows that, although the marketing strategies of large private companies primarily target the upper middle class, there is also evidence of a recent shift towards the lower components of the middle class, as exemplified by the strategy of Coca Cola. This shift may refer to the market-based approach based on the Bottom of Pyramid (BOP) by which firms target the emerging purchasing power of the new middle-class composed of people who have recently escaped from poverty (Fajardo and Arnold, 2022).

RECOMMENDATIONS

- ▶ The middle class in Argentina is strongly heterogeneous in terms of occupational and educational characteristics. The implementation of a public policies should take into consideration, given the impact it can have, the different characteristics of the different middle classes.
- ▶ The lower-middle class is highly vulnerable to macroeconomic instability and exposed to shocks. This group consists mainly of informal and self-employed workers and should be included in a possible – to be studied – "targeted" social protection mechanism to reduce their vulnerability.
- ▶ There is a unanimously strong appreciation of education that is viewed as the main channel of upward social mobility. However, there should be greater emphasis and support for the quality of public education which lags behind and can compromise social mobility.