

THE SHRINKING FILIPINO MIDDLE CLASS



The middle class is shrinking.

A National Statistical Coordination Board (NSCB) study presented at the 10th National Convention on Statistics late last year revealed that from 1997 to 2003, the population share of the Filipino middle class shrank in the country's total population. The population share of the upper class likewise fell during the same period, resulting in a larger low income class.

Entitled "Trends and Characteristics of the Middle Class in the Philippines: Is it Expanding or Shrinking?", the study used data from the 1997, 2000 and 2003 Family Income and Expenditure Surveys (FIES) conducted by the National Statistics Office to come up with the results. It found that "as of 2003, less than 1 in 100 families belong to the high income class; about 20 are middle income and 80 are low income. And in a span of 6 years from 1997 to 2003, close to 4 families for every 100 middle income families have been lost to the low income category."

Dr. Romulo Virola, NSCB Executive Director, noted in his blog that the preliminary results of the 2006 FIES "seem to indicate a continuation of the pattern."

"For a country to be truly and sustainably prosperous there must be a broad-based middle class ...that has the knowledge, the skills and the resources to foster economic growth and help generate employment for the poor. But so far, the poverty reduction programs we have crafted have focused mainly on being 'pro-poor', 'anti-poverty', helping the 'poorest provinces', etc. We seem to have completely ignored the needs of and the strategic importance of building and expanding the middle class of Philippine society," he pointed out.

But how do we know who comprises the middle class?

Identifying the middle class

One approach in identifying the middle class is through income, as done by the study.

The authors conducted cluster analysis on data from the 1997 FIES to create an a priori grouping of families based on income. This grouping was then used to classify families into the low, middle or high income clusters. The lower and upper income limits of the middle class were then determined based on resulting clusters.

The proposed middle class' minimum and maximum income were extrapolated to 2000 and 2003 using two series of the Consumer Price Index – one with base year 1994 and another 2000.

Using income limits for the three years, the middle income class is identified.

To identify the total income determinants of the middle income class, the researchers conducted multiple regression analysis on the families classified as middle class. The dependent variable was the log of total household income with a pre-identified list of independent variables, which include educational attainment of household head, occupation, and materials of the housing unit, among others.

They likewise considered the indicators from the 5-point system of the Market and Opinion Research Society of the Philippines where households are classified into five groups based on income using a set of indicators.

Studies done by other researchers on the income classes were likewise used.

The authors also identified the middle class based on socioeconomic characteristics.

Results

Dr. Virola and his co-authors found that the middle-income class comprise of families who, in 2007, have a total annual income ranging from P251,283 to P2,045,280. Middle-income families also have houses built of strong materials, own a house and lot, a refrigerator and a radio.

They noted that while the middle class shrank only a bit between 1997 and 2000, there was a minimum 2 percentage point decrease in the middle class' population share between 2000 and 2003. The share of middle class families in 2003 was 22.7 percent, down from 23.0 percent in 1997. This further shrank to 19.9 percent in 2003.

The study also found that educational attainment plays a big role in family income. If a household

head has a postgraduate degree, the annual family income is expected to increase at least 17.3 percent in 2000. A college degree, on the other hand, meant a lower but nonetheless significant increase of 10.5 percent in the same year. The authors said that “this highlights the importance of higher education in the socioeconomic status of an individual”.

In terms of occupation, if the household head worked as a government official, manager, supervisor or professional, annual income would increase 31.6 percent in 2003. A job in trade and industry, on the other hand, meant a 3.6 percent decrease in income in 2000.

Mean income of families with a member who is an overseas Filipino worker is higher by 93 percent in 2003. Their income rose PhP33,986 or 9.5 percent from 2000 to 2003.

The authors added that as expected, families in urban areas had income higher by about 6 percent compared to their rural counterparts in 1997 and 2000.

A challenge to policymakers

The NSCB chief called on policymakers to address this seemingly unnoticed but alarming trend. He warned in his blog that “we can no longer ignore the seemingly systematic shrinking of the group of professionals and skilled workers who can spell the difference between us being mired in poverty or crossing over to the league of First-World countries by 2020.”

The warning signs are clear. Hopefully, the country's policymakers will take notice.

Sources:

- “Trends and Characteristics of the Middle Income Class in the Philippines: Is it Expanding or Shrinking?” by Romulo Virola, Mildred Addawe and Ma. Ivy Querubin
- <http://www.businessmirror.com.ph/12132007/economy02.html>
- http://www.nscb.gov.ph/headlines/StatsSpeak/2007/121007_rav_poverty.asp