

Note on the Global Middle Class

Rapid economic growth in India, China, and other developing nations in the late 20th and early 21st centuries led to the emergence of a new global middle class. These billions of potential consumers captured the imagination of both multinational firms and development economists. Global firms saw more than a billion consumers with evolving tastes. This group could drive revenue and profit growth for decades to come. Development economists hailed the large numbers moving out of poverty and realizing more comfortable lives. Political analysts debated the effect that these newly empowered citizens would have on stability and democracy.

This rapid emergence of the global middle class also raised questions about the definition of the middle class, its consumption habits, and its implications on both domestic politics and international relations. Forecasts of consumption varied, but most foresaw rapid growth, especially in healthcare and education. The consensus was that businesses would be challenged to adapt to this new group.

Defining Global Middle Class Growth

Size and growth estimates of the global middle class varied widely depending on the definition used. The income range used to define the global middle class was influenced by a myriad of factors: a relative or absolute approach, the national poverty line, and whether one was attempting to gauge interest in Western brands or local brands.

There were two main ways to define the global middle class: in relative terms, with the income range differing between countries; and in absolute terms, with the same income range applied in all countries. Nancy Birdsall of the Centre for Global Development and Bill Easterly of New York University proposed the former. Easterly defined the global middle class as the three middle quintiles of income, leaving out the poorest 20% and the richest 20%.¹ Most other analysts have used the absolute approach.

MIT development economists Esther Duflo and Abhijit Banerjee defined the global middle class as earning between \$2 and \$10 (US) per day. Similarly, Martin Ravallion, economist at the World Bank, defined the *emerging market middle class* as earning \$2-13 per day. This population had crossed the World Bank's \$2 per day global poverty line, but still lay below the \$13 per day poverty line of the United States.² Members

Published by WDI Publishing, a division of the William Davidson Institute (WDI) at the University of Michigan.

©2011 William Davidson Institute. This note was written by Research Associate Nilima Achwal under the supervision of Aneel Karnani, Associate Professor of Strategy, and Robert Kennedy, Tom Lantos Professor of Business Administration at the University of Michigan's Ross School of Business.