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Economic and Social Commission for Western Asia (ESCWA)

**Expert Group Meeting on the
“Economics of middle class in the Arab region”
Cairo, 28-29 June 2013**

INFORMATION NOTE*1. Background information*

The middle class as a large group within any society is an important category of interest, not only because they are the main driver of economic activity and, thus, vital to the economic development of any country, but because they are an interest group which also influences political and social life. Traditionally and in comparison to other groups, members of the middle class constitute a very broad stratum of the population with various professional, political, economic and social profiles. Often politicians count on the middle class as their main constituent and draw substantial support for policy positions from them. Various indicators are used to define the middle class and to separate them from elites (e.g. “upper” class) or from more disadvantaged, possibly marginalized groups within society. While the recent political developments and transitions in the Arab region are testament to aspirations of the middle class in the Middle East, the concept of middle class and their role in the region is little understood. Understanding the middle class is important to effectively address poverty reduction as the poor benefit from increasing demands for social justice, which is often more forcefully voiced on their behalf by an empowered middle class.

Furthermore, in the history of socioeconomic development, one of the main success criteria is the transformation from a predominantly rural/low value added economy with mass poverty to a predominantly high value added industrial/service based economy with low poverty. Such a transformation is necessarily premised and sustained by the rise of a middle class. These arguments suggest that policies bolstering the middle class have benefits not only for economic growth, but may be more cost-effective at long-term poverty reduction than policies which focus solely on the poor.

As argued in the Arab Millennium Development Goals Report 2013 (2013, forthcoming), the Arab countries are at a developmental crossroad. The success in political transition and economic development will largely depend on the role of middle class in the region. The middle class will also be instrumental in mobilizing support for redefining the development and governance model and negotiating the new social contract in the region. In this respect, studying the middle class in the Arab region is imperative for understanding and providing guidance to the transition process.

This project and its subsequent report will be mainly concerned with the role of middle class in promoting economic development. However economic development does not only depend on

economic factors but understanding the social fabric, political sociology and political economy is important to understand the economics of middle class. There are several ways through which a large middle class can be instrumental in promoting economic development. Firstly, the middle class composes generally of the entrepreneurs who create employment and drive the productivity growth in a country. Secondly, the middle class values human capital accumulation and increased savings, which are critical for economic development. The middle class is also willing and have the capacity to pay extra for higher-quality products, and hence drives demand for high-quality consumer goods, which encourages firms to invest in production and marketing, thus raising income levels for everyone.

This report will also discuss which policies help in increasing the size of the middle class. For example, “inclusive growth” intends to increase the size of the middle class through similar policies to those used in poverty reduction strategies, such as fiscal discipline (good debt management and a fair tax and redistribution system), lack of trade volatility, sound monetary policy (resulting in low and stable inflation), and improved infrastructure. Deliberate policies for reducing income inequality also play a key role in the growth of the middle class. Redistributive policies such as those which target the provision of universal social protection also contributes to a growing middle class, as it will help release those precautionary savings into consumption. In general, macroeconomic policies that tend to increase household income equitably also help in expanding the middle class. Two main elements driving the creation, increase and sustenance of a middle class: stable, secure, well-paid jobs; and higher education.

In understanding who is the middle class in the region and what has happened to them, this project will provide answers to the two following questions:

1. Who are the Arab middle class?
2. Why is the Middle class important for Arab countries given the current political, economic and social developments?
3. How does the Middle class participate in and benefit from economic development in the region?
4. What roles can the middle class play in promoting economic development for all and poverty reduction in the region?
5. What are the policies that support the Middle class and what policies should be avoided?

The objectives of this project on the economics of middle class are as follows:

1. To understand who are part of the middle class and what has happened to its stakeholders by:
 - a. Developing a working definition of Middle class that captions the condition of the Arab region and its sub-regions
 - b. Analysing the conditions and the development of the Middle class over the last decades to provide a context.
 - c. Drawing a profile of Arab middle class

2. To prepare a basis for policy formulation tailored to the needs of the Middle class
3. To support policy guidance on the role of middle class in promoting economic development in the Arab region.
4. To develop policy guidance on the role of the Middle class and their economic participation to reduce poverty.

Reflected in the different outputs, the proposed research approach is three-tiered and interdisciplinary in order to account for the vast nature of the topic and starts at a broad level with the preparation of four background papers. The background papers will provide a desk review on existing research as well as serve as the basis for substantive and informed discussions during the expert group meeting by covering the following four thematic areas:

1. *An economic perspective of middle class*: to analyse with an economic lens the middle class in the region and why the middle class is important from an economic point of view. This will be based on the data derived from various household surveys (such as Egypt, Syria and Yemen) in the region
2. *Political sociology of middle class*: to analyse with a political sociology perspective the middle class in the Arab region and provide a set of indicators applicable to identify middle class in terms of social mobility, rural-urban divide, education level, impact of occupation and family size among others.
3. *Political economy of middle class*: to analyse using the lens of political economy theory the role of Middle class in shaping political and economic institutions as well as assessing their participation in political processes which incur a strong economic impact; the background paper will identify indicators for a political economy profile of Middle class in the Arab region
4. *Impact of macroeconomic and labour market policies on middle class*: to provide a narrative of the labour market and middle class conditions including elements of employment (type, context, policies, etc.), informality, labour market analysis among others. It will also provide an understanding of how the macroeconomic policies of the past decades have affected the labour market in the region and hence the middle class.

Drawing from the material collated in the background papers and from the rich discussions at the expert group meeting, UN ESCWA will prepare a concise yet comprehensive report on the economic role of the Middle Class in the Arab region, which is planned to be launched in December 2013. Beyond the report, the proposal leaves flexibility on the further development of the individual background papers in view of a future edited volume covering also other dimensions pertinent to the Middle class in the Arab region.

2. Participants

In order to facilitate the exchange of knowledge and experience between different actors, participants will be international experts from academia and other research institutions as well as representatives of government officials from different relevant ministries in ESCWA member countries.

3. *Organization*

The Expert Group Meeting will be organized by the Economic Development and Globalization Division of the Economic and Social Commission for Western Asia (ESCWA).

4. *Date and venue*

The Expert Group Meeting on the “Economics of middle class in the Arab region” will be held in Cairo, Egypt during 28-29 June 2013. Exact venue in Cairo will be determined shortly.

5. *Correspondence*

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