Income Inequality and Middle-Income Class in Vietnam

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Abstract: *The paper assumes the relationship between the middle-income class and inequality in income distribution as follows: In pre-industrial and early industrial societies, inequality in income distribution increased when the middle-income classes were small; In the later stage, the more industrialized society developed, the more the middle-income classes expanded while the inequality in income distribution decreased. Based on the results of data processing from the Vietnam Household Living Standards Survey (VHLSS) from 2002 to 2020 conducted by the General Statistics Office, the paper proves that the above research hypothesis is appropriate with the ongoing industrialization in Vietnam (2002-2020); and forecasts that inequality in Vietnam will continue to decrease (after 2020) until the end of the industrialization process.*

1. Rationale, theoretical background, and research hypothesis

Premise 1: The relationship between economic growth and inequality in income distribution.

American economist Simon Kuznets (1901-1985) once posed the question: Does inequality in income distribution increase or decrease in the course of a country's economic growth? (Kuznets, 1955: 1). He argued that "one might thus assume a long swing in the inequality characterizing the secular income structure: widening in the early phases of economic growth when the transition from the pre-industrial to the industrial civilization was most rapid; becoming stabilized for a while; and then narrowing in the later phases" (Kuznets, 1955: 18). This is Kuznets' inverted U-shaped hypothesis about the relationship between economic growth and inequality in the income distribution.

Kuznets' inverted U-shaped hypothesis is explained by Le Quoc Hoi (2010: 14) as follows: According to Kuznets, inequality widened during the early phases of economic growth due to the large migration of low-income agricultural labor to industrial sector which offers higher yet unequally distributed income. However, during the later phases of economic growth as a significant number of workers migrated to urban areas, it was possible to witness a relative increase in the income of poor workers in both urban and rural areas. Many policy measures will be implemented

to mitigate the inequality within and across sectors. As a result, overall income inequality in the economy will decline in the later phases of economic growth.

Premise 2: During industrialization, the growing middle class has contributed to the reduction in inequality amongst different social classes.

During the social transition from pre-industrial to industrial civilization in *Premise 1*, the pattern/ structure of social classes also changed. In the pre-industrial society and the early phases of the industrial society, the poor living at the bottom of social stratification constituted the largest group, while those with power and wealth at the top of the stratification represented an insignificant proportion, leaving a negligible proportion for the middle class. Such social stratification has a pyramid shape including different classes. As industrial societies developed, the middle class expanded, forming a diamond-shaped social stratification. The diamond-shaped social stratification, typically represented by a widening middle part and shrinking bottom part, is a common pattern in modern industrialized countries: According to most observations, the middle class now[1] comprises a large majority of population in Britain and most other industrialized countries (Giddens, 2001: 293).

A social model with a large middle class could *reduce inequality* amongst social classes[2]. Also, the rising middle class could

reduce social conflicts. The middle class acts as an 'buffer', or in other words a 'safety valve', to 'regulate' social conflicts, thereby reducing conflicts between classes of the two extremes: "The existence of a large middle class acts as a political and economic shock absorber, rekindling people's hopes for social mobility, and their responsibilities for social, economic, and political order" (Persell, 1987: 214). The middle class will ensure a stable, harmonious, and sustainable development of a modern social structure.

Premise 3: Major criteria and stages in industrialization.

Researchers around the world have proposed that one of the important criteria, mainly to complete industrialization, is economic restructuring - reflected in the reduction in the proportion of agricultural labor. From a sociological point of view, it is the reduction of the peasantry at the bottom of the social stratification. The criteria for reducing the proportion of agricultural labor can be summed up according to H. Chenery's point of view (an American professor) as follows: In the pre-industrialization period, the proportion of agricultural laborers was >60% → the beginning of industrialization (60-45%) → industrialization development (45-30%) → industrialization completion (30-10%)

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[1] At the time of publication.

[2] Among the basic types/patterns of social stratification in the world (with shapes varying from pyramid/cone, truncated cone, rhombus/ diamond/gyro, cylinder to "flying saucer"), the pyramid model shows the highest inequality (Trinh Duy Luan, 2004: 19). In the pyramid model, the

majority of members are at the bottom but own/ control a very little and disproportionate amount of resource. Meanwhile, the number of members at the top of the stratification is the opposite. Comparing the ratio of "resource accumulation"/"population accumulation" between the two groups at the top and bottom of the pyramid, it can be seen that the social stratification model that has a larger middle class will have a more equal (i.e., less polarized) distribution of resources than a pyramidal social stratification model.

→ post-industrialization (<10%) (Bui Tat Thang, 2011: 25)

Research hypothesis: The relationship between middle class and inequality in income distribution.

Based on the 3 premises mentioned above, the research hypothesis for the case of Vietnam can be made as follows: In the pre-industrial society and the early stage of the industrial society, inequality in income distribution increased when the middle classes remained relatively small. In the later stage, as the industrial society developed, the middle classes expanded, resulting in decreasing inequality in income distribution.

Our research hypothesis based on the actual situation in Vietna and Kuznets' theoretical hypothesis (ie Premise 1) are essentially identical. Both refer to income inequality in the process of social transition from pre-industrial to industrial civilization, but the two hypotheses look at this process from two different angles (sociological and economic). Both of these hypotheses apply at the national level. We continue to test the research hypothesis through experiment in the section below.

2. How does the empirical evidence in Vietnam prove the research hypothesis

The *inequality in income distribution* (measured by Gini coefficient in the VHLSS 2002-2020) as the Vietnamese society shifted from pre-industrialization to industrialization could be seen in the data presented in Table 1 and Figure 1 (In Figure 1, the two regions "Northern Central" and

"Central Coast", and "the Mekong Delta Region" are excluded).

Gini coefficient's changing pattern illustrated in Table 1 and Figure 1 is as follows: *The general trend of Gini coefficient nationwide, in urban and rural areas as well as all other parts of the country, displayed a **declining income equality in 2020***. This is clearly shown in Figure 1, in which all curves tended to **turned downward** in 2020 although from 2018 backwards the curves showed slight upward/ downward trend at varying degrees.

From another perspective, the gap in monthly average income per capita between 20% of households with the highest income (rich households) and 20% of households with the lowest income (poor households) increased between 2002 and 2019, followed by a decline in 2020, particularly the gap between the 20% of the richest and 20% of the poorest was 8.1 times (2002) → 8.3 times → 8.4 times → 8.9 times → 9.2 times → 9.4 times → 9.7 times → 9.8 times → 10.0 times → 10.2 times (2019) → 7.99 times (2020) (General Statistics Office, 2016b: 19, 303; 2021b: 152, 153; 2021a: 11).

Figure 1: Gini coefficient on income inequality in Vietnam (2002-2020)

Table 1. Gini coefficient on inequality in income distribution in Vietnam (2002-2020)

	2002	2004	2006	2008	2010	2012	2014	2016	2018	2020
Nationwide	*0.420*	*0.420*	*0424*	*0,434*	*0.433*	*0.424*	*0.430*	*0.430*	*0.425*	*0.375*
Urban	0.410	0.410	0.393	0.404	0.402	0.385	0.397	0.397	0.373	0.330
Rural	0.360	0.370	0.378	0.385	0.395	0.399	0.398	0.398	0.408	0.373
6 socio-economic regions:										
Red River Delta				0.411	0.408	0.393	0.407	0.407	0.390	0.327
Northern Midlands and Mountains				0.401	0.406	0.411	0.416	0.416	0.444	0.420
North central and Central coast				0.381	0.385	0.384	0.385	0.385	0.383	0.354
Central Highlands				0.405	0.408	0.397	0.408	0.408	0.440	0.406
Southeast				0.410	0.414	0.391	0.397	0.397	0.375	0.291
Mekong River Delta				0.395	0.398	0.403	0.395	0.395	0.400	0.368

Source: General Statistics Office (2007: 327), (2011: 431), (2016a: 781), (2020: 857), (2021a: 872)

The income gap tended to reduce in 2020 as the Gini coefficient turned downward in 2020 (Figure 1). This trend was displayed in the early phases of industrialization, i.e., income inequality increased; in later phases (specifically 2020), income inequality tended to decline. This development is consistent with Premise 1 (Kuznets' hypothesis).

Why was there a downward trend in did Gini coefficient and a reduction in the income gap in 2020? Did this development have anything to do with the middle class of 2020? To answer this question, we need to consider the transformation of the middle class during the social transition from pre-industrial to industrial society in Vietnam, and the relationship between the middle class and inequality in income distribution.

To develop the social stratification model in Table 2, Figure 2, and Figure 3, we applied the method of grouping and ranking hierarchical social classes in accordance with world's common standards that is applicable to Vietnam (Do Thien Kinh, 2018b: 43-49, 111-131, 193-195). This is the method that we have used over the years in our research on social stratification, based on which we processed data obtained from VHLSS between 2002 and 2018. Our findings are therefore presented in Table 2, and graphs in Figure 3. Figure 2 provides and overview for the entire period from 2002 to 2018, including the upper class (Leadership and management, and Businessmen), middle class (4 classes: Professional, Employees, Workers, Sales - Services, and lower class (3 classes: Handicraft, Simple Labor and Farmers).

The data in Table 2 shows that the proportion of the middle class rose gradually between 2002 and 2018, particularly, 10.8% (2002) → 12.6% → 13.8% → 15.9% → 28.1% → 29.5% → 29.9% → 32.1% → 35.3% (2018). The average growth rate of the middle class is 1.5%/ year. By contrast, the figures for farmers steadily declined from 58.0% in 2002 to 39.2% in 2018. The average reduction rate of farmers is 1.2%/ year. The farmer class shrank to move up the hierarchy to the middle class.

The inverse proportion between farmers and the middle class resulted in the expansion of the middle class (though remaining insignificant) from 2002 to 2018 during the industrialization in Vietnam (Figure 3). This

is a proven fact in the first half of Premise 2 which refers to the growing middle class during industrialization.

The reason for the expansion of the middle class is due to the shift of labor and from low-income agricultural sector (mainly in rural areas) to higher-income non-agricultural sectors (mainly in urban areas). It was the labor movement at the beginning of industrialization that caused income inequality to increase because the income disparity between the agricultural and non-agricultural sectors was large. In the later stage of industrialization, a large number of agricultural labor have moved to non-agriculture, leading to the expansion of urban area and the shrinkage of rural area. This means that the process of industrialization associated with urbanization has made rural and urban areas become "closer together". Simultaneously, there is a relative increase in the income of the poor working class in both rural and urban areas, which reduces the income gap between the agricultural and non-agricultural sectors. This was explained by Kuznets in Premise 1 (from an economic perspective).

From the sociological perspective, agricultural labor mainly consisted of farmers while the majority of non-agricultural labor were the middle class. As a result, the shift from agricultural labor to non-agricultural labor is also the process of shifting from farmers to the middle class. This shift in the early stages of industrialization led to the expansion in income inequality. When the middle class remained small (i.e., the society is divided into two classes including lower and upper classes), then income disparity among social classes tended to widen and be divided into two poles (Do Thien Kinh, 2018a: 13-22; 2018b: 137-156). In the later phases of industrialization, income inequality shrank as the middle class expanded, the society was not polarized, the income gap among

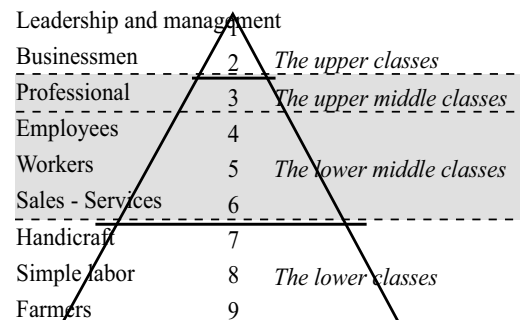**Figure 2. Diagram of 3 social classes (upper, middle, lower)**

Leadership and management — 1
Businessmen — 2 — *The upper classes*
Professional — 3 — *The upper middle classes*
Employees — 4
Workers — 5 — *The lower middle classes*
Sales - Services — 6
Handicraft — 7
Simple labor — 8 — *The lower classes*
Farmers — 9

Table 2. The proportion of various social classes in Vietnam (2002-2018) (%)

9 social classes	2002	2004	2006	2008	2010	2012	2014	2016	2018	2020
1. Leaders and managers	0.8	1.0	1.1	1.0	0.6	0.5	0.6	0.6	0.5	
2. Businessmen	0.2	0.4	0.5	0.4	0.5	0.6	0.6	0.7	0.6	
3. Professional	1.8	2.4	2.8	3.7	4.7	5.1	5.4	5.5	6.7	
4. Employees	4.0	4.6	4.6	4.5	5.2	5.1	5.1	5.6	5.5	
5. Workers	2.2	2.4	2.7	3.1	5.3	5.9	5.8	6.9	8.0	
6. Sales - Services	2.8	3.2	3.7	4.6	12.9	13.4	13.6	14.1	15.1	
7. Handicraft	9.3	10.3	11.4	12.4	13.1	13.4	13.6	14.2	14.5	
8. Simple labor	20.9	22.3	21.7	19.8	10.4	9.0	9.7	9.2	9.9	
9. Farmers	580	53.4	51.6	50.4	47.3	47.0	45.6	43.3	39.2	
Agricultural labor	*58.6*	*56.1*	*54.3*	*52.3*	*49.5*	*47.4*	*46.3*	*41.9*	*37.7*	*33.1*

*Source:* Results from analyzing data from VHLSS 2002-2018; General Statistics Office, 2021b: 29, 131.

social classes tended to narrow; as a result, the middle class has reduced inequality. This is explained in the footnote on the role of the middle class in *Premise 2*.

Two explanations including: (i) shifting from agricultural workers to non-agricultural workers or (ii) the formation of the middle class are closely related to income disparity. As mentioned above, these explanations (Kuznets' and ours_ are consistent, differing in the perspective only (economic and sociologic). These views are shown in the last two lines in Table 2 (The proportion of farmers and the proportion of agricultural labor), which shared similar data in each year. This occurred due to the different perspectives as mentioned in Premise 3, in which farmers are termed under sociological view while agricultural labor is termed under economic view. Based on the proportion of agricultural labor (representing 33.1% in 2020), and comparing with Premise 3, it is obvious that Vietnam is currently (2020) in the industrialization phase (comprising 45%-30% of agricultural labor). Specifically, in 2020 Vietnam is in the final stage of industrialization and is about to move to the industrialization perfection phase - also called the intersection between industrialization development and industrialization perfection, which matches the time when the Gini coefficient curves

turned downward in Figure 1 during the industrialization process in Vietnam.

Sharing a similar pattern with the proportion of agricultural labor (and farmers), the figure for the middle class during industrialization was about the same. Specifically in Table 2, in 2018, the rate of agricultural labor in the country was 37.7%, the data of farmers and the middle class were 39.2% and 35.3% respectively, accounting for about a third of the nationwide social labor force. In 2020, the proportion of agricultural labor reduced to 33.1%; likewise, the proportion of farmers also decreased while the statistics of the middle class increased compared to 2018. Although there is no official data on the ratio of farmers and middle class for 2020, based on the trends in 2018, which witnessed the most significant changes, it could be estimated as follows: If the percentage of farmers continues to decrease by 4.1% (as in 2018), the percentage of farmers in 2020 will be 39.2% - 4.1% = 35.1%. At the same time, if the middle class continues to grow by 3.2% (as in 2018), the figure for the middle class in 2020 will be 35.3% + 3.2% = 38.5%. The estimated figures for agricultural labor, farmers and the middle class could be 33.1%, 35.1%, and 38.5% respectively, which corresponds with the downward trend in the Gini coefficient of the country (Figure 1).

Figure 3. The 9 social class model in Vietnam (2002-2018)
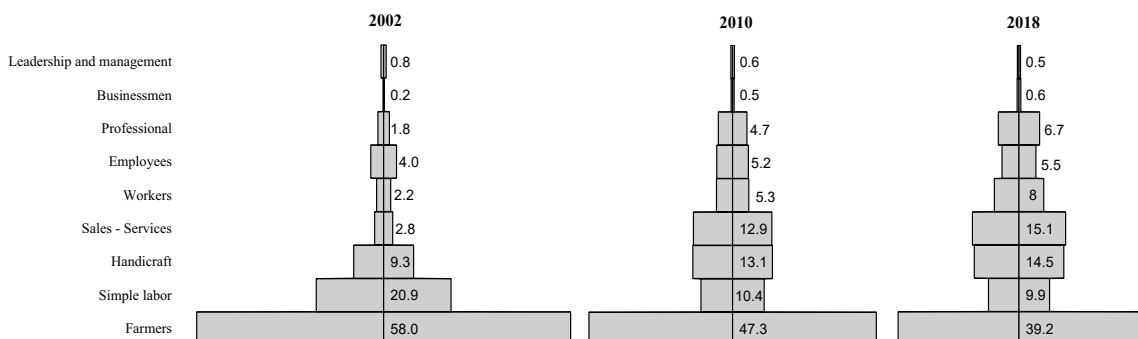
In other words, the specific number of the small yet expanding middle class is 38.5% (estimate for 2020) - around 40%. This means the middle class remains small when accounting for less than 40%. If this proportion accounts for 40% or more, it means the middle class is expanding. At this threshold of the middle class (about under 40%), income inequality will increase. Meanwhile at the threshold of 40% or more, income inequality will diminish. The time to reach this milestone in the whole country is 2020. According to Premise 3, this is the intersection period between industrialization development and industrialization perfection (the graph in which the Gini coefficient turns downward). For further reference (for illustration), the income inequality curve sharply turned downward in the Southeast region in 2010, and the same happened in the Red River Delta in 2016 (Figure 1). At those two times, the two regions had gone through the industrialization development phase and transitioned to the industrialization perfection stage. According to our findings from processing the VHLSS data, the Southeast region had a farmer rate of 20.8% and a middle class rate of 48.4% in 2010 (in 2008 the figure for the middle class rate was 33.0% - less than 40% threshold). Thus, according to Premise 3, the Southeast region has undergone the stage of industrialization development and transitioned to the stage of industrialization perfection in 2010. Only in 2016 did the Red River Delta reach this level of development of the industrialization process (with 27.7% of farmers and 41.3% of the middle class - above the 40% threshold). Prior to 2016, specifically in 2014, the figure for the middle class in the Red River Delta

was 36.5% - less than the 40% threshold. Accordingly, 2010 and 2016 are the two milestones when the two regions of the Southeast and the Red River Delta crossed the boundary line (about 40%), at which the middle class remains small yet expanding. As a result, the Gini coefficient curve for income inequality clearly turned downward in these two regions in those two years.

On a national scale, according to the stages of industrialization in Premise 3, Vietnam has gone through the stages of Pre-industrialization, Industrialization Commencement, and is now at the end of Industrialization Development with the proportion of agricultural laborers representing 33.1% in 2020. Thus, in the process of industrialization until 2020, income inequality increased at the first stage (2002-2018). Simultaneously along with income inequality, it is also observed that farmers decreased to move to the upper class, causing the middle class to expand yet remaining small (the nationwide middle class occupies 35.3% in 2018, less than the threshold of about 40%). The process of reducing agricultural labor (and farmers) and gradually increasing middle class as a general rule of industrialized countries in the world has been shown in Vietnam during the industrialization period. From 2020, Vietnam was about to move to the industrialization Perfection phase (and then Post-Industrialization), the inequality in income distribution tended to decrease and the proportion of the middle class in the country continued to increase to 35.3% (in 2018) and 38.5% (estimate for 2020 - reaching the threshold of about 40%). This empirical observation is consistent with the research hypothesis that was set during industrialization in Vietnam until 2020.

3. Forecasting inequality in Vietnam in the future

The above analysis shows that income inequality in Vietnam has begun to decrease in 2020 (preceded by an increase in inequality from 2002 to 2018). This is also the intersection period between the two phases of Industrialization Development and Industrialization Perfection. According to the research hypothesis, the future forecast of income inequality in Vietnam will continue to decrease until the end of the Industrialization Perfection phase which is the end of the industrialization process in Vietnam. Until then, Vietnamese society will transition to the post-industrialization phase. The practical significance of this forecast shows that from now (in 2021) until the completion of industrialization, we will see a reduction in income inequality. That is the law of natural development of society in the process of industrialization, not because of the "leadership" (talented leader) of a certain group of people. At the same time, in Vietnam, the gap between rich and poor will no longer be widening. Instead, the gap between rich and poor is narrowing, agricultural labor is shrinking, farmers have a higher standard of living, the middle class is expanding and witnessing a closer connection between rural and urban areas ❑

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