

The Economist

FEBRUARY 14TH-20TH 2009

www.economist.com

Britain's sinking economy

Stalemate in Israel

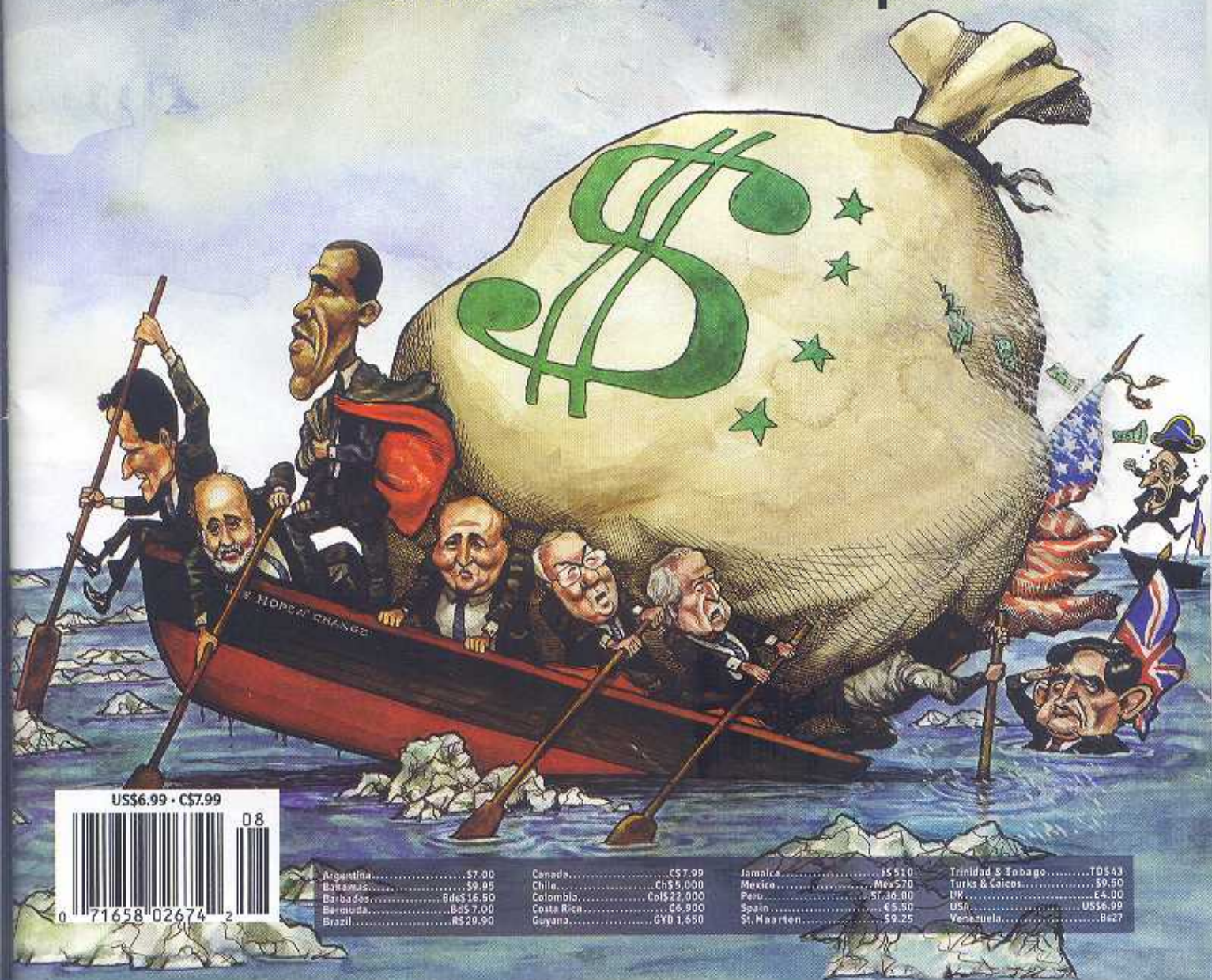
Australia's fires from hell

Will electronic books save newspapers?

Irving Fisher, out from Keynes's shadow

To the rescue

The trouble with Obama's plan



US\$6.99 • C\$7.99

08



0 71658 02674 2

Argentina.....\$7.00
Barbados.....\$9.95
Bermuda.....Bds 16.50
Brazil.....R\$29.90

Canada.....C\$7.99
Chile.....Ch\$5,000
Colombia.....Col\$22,000
Costa Rica.....C\$6,900
Guyana.....GYD 1,450

Jamaica.....J\$510
Mexico.....Mex\$70
Peru.....S/ 30.00
Spain.....€5.50
St. Maarten.....\$9.25

Trinidad & Tobago.....TDS43
Turks & Caicos.....\$9.50
UK.....£4.00
USA.....US\$6.99
Venezuela.....Bs27

The
Economist



Burgeoning bourgeoisie

A special report on
the new middle classes in emerging markets
February 14th 2009

Burgeoning bourgeoisie

Also in this section

Who's in the middle?

It's a matter of definition. Page 2

Beyond Wisteria Lane

Scott Fitzgerald was wrong. It is not the rich who are different but the middle classes. Page 4

What do you think?

A special poll on middle-class attitudes. Page 6

Notions of shopkeepers

Why the new middle classes are so good for their countries' economies. Page 7

The other Moore's law

"No bourgeoisie, no democracy"; Barrington Moore may have had a point after all. Page 10

Suspended animation

The recession may bring middle-class growth to a halt for a while—but not for long. Page 13

Acknowledgments

The author would like to acknowledge the generous help of a number of people at the World Bank and McKinsey. In addition to those named in the text, he would especially like to thank: Shankar Acharya, Suman Bery, Rama Bijapurkar, Nicola Calicchio, Phyllis Chang, Charles Collyns, Uri Dadush, Angus Deaton, Jorg Decressin, Shanta Devarajan, Bruce Dickson, Tracey Francis, Paul French, Francis Fukuyama, Norman Gall, David Goodman, Carol Graham, Peter Hakim, Louis Kuijs, Nicolas Lardy, Danny Leipziger, Eduardo Lora, Andrea Minton Beddoes, Max Magni, Laxman Narasimhan, Jim O'Neill, Qin Bing, Tang Jun, Arvind Virmani, Yuan Yue and Roberto Zagha.

A list of sources is at

www.economist.com/specialreports

An audio interview with the author is at

www.economist.com/audiovideo



For the first time in history more than half the world is middle-class—thanks to rapid growth in emerging countries. John Parker reports

THE crowd surges back and forth, hands snapping one of Brazil's best-known samba bands. It could be almost anywhere in Latin America's largest city on a Saturday night. But this is Paraisópolis, one of São Paulo's notorious crime-infested *favelas* (slums). Casas Bahia, the country's largest retailer, is celebrating the opening there of its first ever store in a *favela* (pictured above). It is selling television sets and refrigerators in a place that, at first glance, has no running water or electricity.

Among the shacks, though, rise three-storey brick structures with satellite dishes on their tin roofs. In the new shop, Brazilians without bank accounts—plumbers, salesmen, maids—flock to buy on instalment credit. In a country with no credit histories, the system is cumbersome: the staff interview customers about their qualifications and get them to sign stacks of promissory notes, like post-dated cheques, before allowing them to take their purchases home. But it works, more or less. According to Maria, a cleaner, "Everything I have comes from Casas Bahia. Things are very expensive but the means of payment are better for people like us, without any money." This is the emerging markets' new middle class out shopping.

Eduardo Giannetti da Fonseca, one of Brazil's most distinguished economists, describes members of the middle class as "people who are not resigned to a life of

poverty, who are prepared to make sacrifices to create a better life for themselves but who have not started with life's material problems solved because they have material assets to make their lives easy." That covers a broad range of ambitions, as two other examples will show.

Back in 1992 Lu Jian was a dissatisfied mid-level bureaucrat at China's department of transport and communications who became surplus to requirements. Taking advantage of government measures that encouraged such officials to go into business, he went off for a stint at China's first commodity-futures trading company. Soon afterwards he found himself designing the country's first ski resort, near the northern city of Harbin. Now, as chairman of the Nanshan Ski Village, in the desert hills near Beijing, he presides over the capital's main winter-sports recreation ground.

This season 3m Chinese will take up a sport that was unavailable in the country only 15 years ago. China has around 300 ski runs, including some in the subtropical south where skiing is done indoors. Even in freezing Nanshan, snow is manufactured from wells deep underground. "When the Chinese first got rich," says Mr Lu, "they wanted to go to Thailand and South Korea. Now they want to go skiing." Every weekend the resort is packed with IT executives, bankers and media glitterati. This is the emerging markets' new middle class at play.

► In December 2008, a week after the terrorist attacks in Mumbai, thousands of young, English-speaking professionals gathered in Mumbai, New Delhi, Bangalore and Hyderabad. They were demanding a new security law and a ban on criminals holding parliamentary seats, as well as urging people to vote. India's professional classes have long been considered indifferent to politics and less inclined to vote than the poor. Yet suddenly social-networking sites were full of memorials to the victims and proposals for further action: vote, don't vote, withhold taxes, join

a new party. "Those laid-back, lethargic, indolent middle classes—they've been galvanised," says a former advertising executive. This is the emerging markets' middle class engaged in politics.

So much to do

"We expect a lot from the middle classes," say Abhijit Banerjee and Esther Duflo, of the Poverty Action Laboratory at the Massachusetts Institute of Technology. Following the historical examples of Britain and America, they are expected to be the dominant force in establishing or consolidating

democracy. As a group, they are meant to be the backbone of the market economy. And now the world looks to them to save it from depression. With the global economy facing the biggest slump since the 1930s, the World Bank says that "a new engine of private demand growth will be needed, and we see a likely candidate in the still largely untapped consumption potential of the rapidly expanding middle classes in the large emerging-market countries."

This special report will assess these expectations. It will argue that many of them are broadly justified; that there is indeed ►►

Who's in the middle?

It's a matter of definition

THERE are two main ways to define a middle class: in relative terms, as the middle income range of each country; or in absolute terms, using a fixed band for all countries. An influential exponent of the first approach was Lester Thurow of the MIT's Sloan School of Management, who took as his reference point the median income in America—where there is an equal number of people above and below the line—and defined the American middle class as the group with incomes lying between 75% and 125% of the median. Nancy Birdsall of the Centre for Global Development applied the same idea to developing countries. Bill Easterly of New York University selected those who were in the three middle quintiles of income (leaving out the poorest 20% and the richest 20%). The problem with this approach is that each country has a different median income, so the definition of what is middle class shifts from place to place.

An absolute definition avoids that problem. The question is what level to choose. In a paper in 2002, Branko Milanovic and Shlomo Yitzaki used the average incomes of Brazil and Italy as the respective floor and ceiling. That translates into roughly \$12-50 a day per person, using household-survey data at 2000 purchasing-power parities (PPP).

On that definition, the middle-class population of emerging markets was about 250m in 2000 and 400m in 2005. The World Bank says it will be 1.2 billion by 2030. But despite that rapid growth, in 2005 this global middle class accounted

for only 6% of the world's population and in 2030 it will still make up only 15%.

The main objection to this definition is that it excludes many people in China and India who are recognisably middle-class but earn less than \$12 a day. India's National Council for Applied Economic Research found that between 1995 and 2005 the number of Indians earning \$12-60 a day rose from 2% to only 5% of the country's population, but the number of those earning \$6-12 a day rose from 18% to 41%.

An unpublished paper by Martin Ravallion at the World Bank uses a range of \$2 to \$13 at 2005 PPP prices. Two dollars a day is a commonly accepted definition of the poverty line in developing countries; people above this line are middle-class in the sense that they have moved out of poverty. Thirteen dollars a day is the pov-

erty line in America, so this category might be described as people who are middle-class by developing-country standards but not by American ones. It is the developing world's own middle class.

Mr Ravallion's range captures the staggering growth of the emerging-market middle class. Between 1990 and 2005 the total almost doubled, from 1.4 billion to 2.6 billion, rising from one-third of the developing world's population to half. It also gives due weight to China, where the numbers living on \$2-13 a day rose from 174m to a jaw-dropping 806m in just 15 years. In India the numbers rose from 147m to 264m, impressive in any other context. But Mr Ravallion's definition excludes people living on slightly above-average incomes in Brazil, who would generally be considered middle-class too.

John Hewko of the Millennium Challenge Corporation, part of America's aid-giving system, points out that there is no single best definition; it all depends on what you want it for. If you need to know whether America's middle class is declining, for example, you use Mr Thurow's relative approach. To find out how many people in emerging markets might be, or become, customers for Western brands—the global middle class—you need something like the Milanovic-Yitzaki range: this is what McKinsey and Goldman Sachs use. And if you want to measure how many people in developing countries have moved out of poverty and into the middle class recently, the Ravallion/Banerjee-Duflo range is just the job.

Half the world

Population living on \$2-13* a day, m

	1990	2005
East Asia and Pacific	315.5	1,117.1
of which China	173.7	806.0
Eastern Europe and Central Asia	355.3	347.8
Latin America and Caribbean	276.7	362.1
Middle East and North Africa	170.2	240.1
South Asia	192.7	380.2
of which India	146.8	263.7
Sub-Saharan Africa	117.7	197.1
Total	1,428.1	2,644.3

*2005 prices at purchasing-power parity
Source: Martin Ravallion

► something special about the contribution the middle classes make to economic development that goes beyond providing a market for Western consumer goods. The middle classes can, and sometimes do, play an important role in creating and sustaining democracy, though on their own they are not sufficient to create it, nor do they make it inevitable. On balance, the report is optimistic about the prospects of countries where the middle classes are growing. But they are not a homogeneous group, so their impact varies. A middle class that has grown largely to tend to the state will behave differently from one that is based on the private sector.

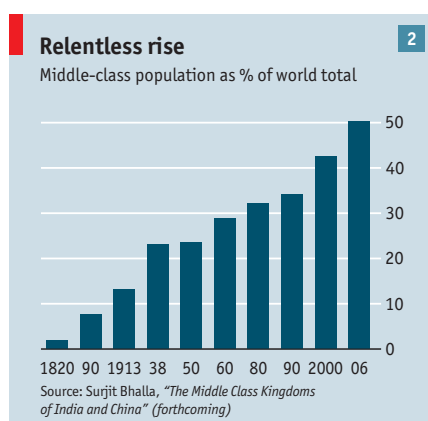
The one-third rule

But who, as a patrician British prime minister, Harold Macmillan, once loftily asked, are these middle classes? Their members are neither rich nor poor but somewhere in-between. In countries long divided between lord and peasant, that has large consequences. "Middle-class" describes an income category but also a set of attitudes. In the words of Shashi Tharoor, an Indian commentator, it is a category "more sociological than logical".

An essential characteristic is the possession of a reasonable amount of discretionary income. Middle-class people do not live from hand to mouth, job to job, season to season, as the poor do. Diana Farrell, who is now a member of America's National Economic Council but until recently worked for McKinsey, a consultancy that has spent a lot of time studying the middle classes, reckons they begin at roughly the point where people have a third of their income left for discretionary spending after providing for basic food and shelter. This allows them not just to buy things like fridges or cars but to improve their health care or plan for their children's education.

Usually, an income of that size requires regular, formal employment, with a salary and some benefits, that is, a steady job—another key middle-class characteristic. The income needed to have a third of it left over after meeting basic needs also varies from place to place. In China, for example, \$3,000 a year may be enough in Chongqing or Chengdu, big cities in the west, but not in Beijing or Shanghai. So defining the middle class in absolute terms is hard (see box, previous page).

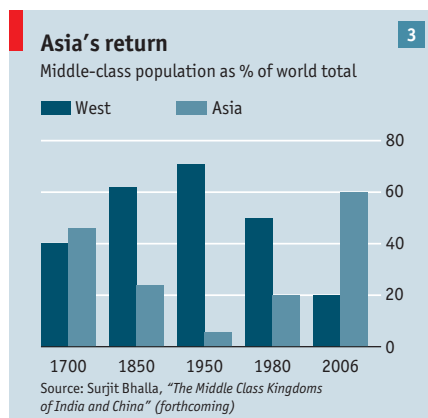
In practice, emerging markets may be said to have two middle classes. One consists of those who are middle class by any standard—ie, with an income between the average Brazilian and Italian. This group



has the makings of a global class whose members have as much in common with each other as with the poor in their own countries. It is growing fast, but still makes up only a tenth of the developing world. You could call it the global middle class.

The other, more numerous, group consists of those who are middle-class by the standards of the developing world but not the rich one. Some time in the past year or two, for the first time in history, they became a majority of the developing world's population: their share of the total rose from one-third in 1990 to 49% in 2005. Call it the developing middle class.

Using a somewhat different definition—those earning \$10-100 a day, including in rich countries—an Indian economist, Surjit Bhalla, also found that the middle class's share of the whole world's population rose from one-third to over half (57%) between 1990 and 2006. He argues that this is the third middle-class surge since 1800. The first occurred in the 19th century with the creation of the first mass middle class in western Europe (see chart 2). The second, mainly in Western countries, occurred during the baby boom (1950-1980).



The current, third one is happening almost entirely in emerging countries. According to Mr Bhalla's calculations, the number of middle-class people in Asia has overtaken the number in the West for the first time since 1700 (see chart 3).

In many emerging markets the middle class does not grow incrementally, in line with, say, economic growth. It surges. Chart 4 on the next page shows why. The vertical line represents an income of \$10 a day, which is where Mr Bhalla considers the middle class to start. In 1980 there was hardly anyone beyond that line. The lopsided bell shape represents the distribution of income in a country (in this case, China) with a tail of poor people on the left, a longer tail of rich ones on the right and a bulge of people on average incomes in the middle.

As the economy grows, the bell moves to the right and as it meets the threshold, a great whoosh of people cross into the middle class. In reality, growth may be even faster because the shape of the bell has been changing. According to new research by Martin Ravallion, the director of the World Bank's development research group, income distribution in developing countries started to shift between 1990 and 2005. The bulge in the middle of the range got bigger, making the bell taller, so the middle class is growing even faster.

At a certain stage it starts to boom. That stage was reached in China some time between 1990 and 2005, during which period the middle-class share of the population soared from 15% to 62%. It is just being reached in India now. In 2005, says the reputable National Council for Applied Economic Research, the middle-class share of the population was only about 5%. By 2015, it forecasts, it will have risen to 20%; by 2025, to over 40%.

Sweet spot

Homi Kharas, of the Brookings Institution, a think-tank in Washington, DC, argues that the point at which the poor start entering the middle class in their millions is the "sweet spot of growth". It is the moment when poor countries can get the maximum benefit from their cheap labour through international trade, before they price themselves out of world markets for cheap goods or are able to compete with rich countries in making high-value ones. It is also almost always a period of fast urbanisation, when formerly underemployed farmers abandon what Marx called "the idiocy of rural life" for the cities to work in manufacturing, boosting their pro- ►►

► ductivity many times over. Eventually this results in a lessening of income inequalities because the new middle class sits somewhere between the rich elite and the rural poor.

The surge across the poverty line is a period of accelerating growth both for the new middle class and for the country it inhabits. That should continue for a couple of decades. By most estimates, the global middle class will more than double in number between now and 2030. This will

have profound social consequences, as happened in previous middle-class surges.

Close to the creation of the world's first mass middle class in early 19th-century England, Thomas Malthus (the political economist who scared the world with his forecasts of overpopulation and food shortages) wrote that "it is probable that extreme poverty or too great riches may be alike unfavourable [to furthering the progress of mankind]. The middle regions of society seem to be best suited to intellectu-

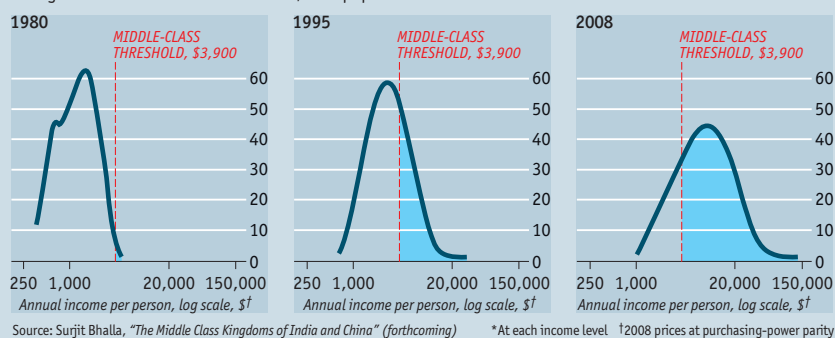
al improvement."

Marx, who admired Malthus, was equally astonished by the emergence of the middle class. As he wrote in the "Communist Manifesto":

Historically it has played a most revolutionary part. The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations...It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts and Gothic cathedrals...The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country...All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life-and-death question for all civilised nations...In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes...National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures there arises a world literature. The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. ■

Mostly middle-class now

Changes in China's income distribution, % of population*



Beyond Wisteria Lane

Scott Fitzgerald was wrong. It is not the rich who are different but the middle classes

IN 1943 Abraham Maslow, an American behavioural scientist, published an article entitled "A Theory of Human Motivation" in which he argued that people everywhere are subject to what he called a "hierarchy of needs". At the bottom are food and shelter, sex and sleep: elementary physiological needs. Next come the basic needs for safety and security. As long as these things are lacking—as they are for billions of the world's poor—the search for them dominates every aspect of life.

But once basic needs are met, people move up "Maslow's pyramid" to look for other things: what he called "belonging needs" (love, acceptance, affiliation), "esteem needs" (self-respect, social status, the approval of others) and at the top "self-actualisation" (as he put it, "a musician must make music, an artist must paint, a poet must write if he is to be ultimately at peace with himself").

Maslow was talking about individuals, but groups of people climb Maslow's pyra-

mid too, argues Brink Lindsey of the Cato Institute, a think-tank in Washington, D.C. In America, says Mr Lindsey, material abundance has made people more self-absorbed, changing the character of culture and politics. This is what happens when people reach the top of the pyramid. Developing countries have yet to get there. Once they have solved the problems of food and security, suggests Mr Lindsey, the middle classes in those countries too start to turn to "belonging" and "esteem" needs.

Suburban revolution

Sociological research has confirmed that improvements in material circumstances change the behaviour and the thinking of whole groups. In 1967, within a generation of Maslow's article, Herbert Gans wrote a classic book, "The Levittowners", which described the changing mindset of America's new middle class. Levittown was the original suburbia: a place of identical detached single-family houses with white

picket fences. Lampooned for its uniformity ("Ant-like conformity now affordable", joked a satirical newspaper, *The Onion*), it nevertheless influenced suburbs the world over.

In "The Levittowners", Gans claimed that America's new middle classes were thinking and acting very differently from the working-class communities in which most of them had grown up. Those traditional communities had been (to use terms popular at the time) "peer-group-directed", taking their values and their outlook from people in their immediate circle, such as family and co-workers. By contrast, Gans argued, the middle classes were "other-directed", taking their cues not only from family and friends but from managers in distant offices or from contemporaries they had heard about through other means, such as the mass media.

Peer-group people live by rigid codes set by their village or trade union. "Other-directed" folk are more flexible in their ►►

▶ thinking. Mr Lindsey explains: "Middle-class life is built on abstract relations based on shared values... We are used to dealing with people we don't know in order to get something done and do it by abstracting away from the particular details of our background or personality." To use a famous metaphor, the mind of the peer-group-directed person is a gyroscope, pivoting on a single point; that of the other-directed person works like radar, taking in signals from near and far.

Research based on opinion polls documents the differences between middle-class and working-class attitudes. The best-known work of this kind is the World Values Survey run by Ronald Inglehart of the University of Michigan. It tracks attitudes to public institutions—such as the government or the church—and to broader social matters, such as the role of women or children. As countries get richer (and, by implication, more middle-class), the influence of traditional and religious authorities tends to fall away, though "Western" attitudes to personal and individual well-being are slower to develop. Just as people move up Maslow's pyramid from "safety" to "esteem", so countries rid themselves of some traditional attitudes without adopting individualistic Western notions about broader social mores. For this special report, *The Economist* asked the Pew Research Center to document the opinions of the global middle class: the results, which confirm the distinctiveness of middle-class attitudes, are summarised in the box on the next page.

Mr Inglehart identifies three kinds of society. The first is dominated by traditional attitudes to authority and holds inherited religious and communal norms in great esteem. The next is "modern society", which covers the majority of middle-income countries. The last is what he calls "post-modern society", which values individual and subjective well-being above all else and downplays authority of any kind.

"Modern society" stresses the importance of economic growth and upward mobility. It is shifting away from traditional acceptance of established authority and putting more emphasis on law and rights. It engages in a wider debate of policy and politics. It is the kind of society in which people hope their children will do better than they have done themselves; which believes in merit, not privilege; competition, not inheritance; thrift, not conspicuous consumption; and which applauds personal effort rather than collective endeavour. It is a society summed up by the

words of Margaret Thatcher, a former British prime minister: "We were taught to work jolly hard. We were taught self-reliance. We were taught to live within our income." Lastly, it is a society whose critical characteristic, according to Justin Yifu Lin, the World Bank's chief economist, is "aspiration, and the means to pursue it". It is a society of the new middle classes.

The muddle classes

So far, this report has looked at what the new middle classes have in common, treating them as a homogeneous group. But, as Lawrence James says about the British variety in his book, "The Middle Class: A History", they are "a sprawling, untidy organism in a perpetual state of evolution".

For example, Kellee Tsai, a professor at



Thatcher set the tone

Johns Hopkins University, argues that there is no such thing as a coherent middle class in China. Her research shows that two-fifths of Chinese private-sector entrepreneurs were born to farming families; one-fifth come from families of ordinary workers; and about 15% are children of government officials or enterprise managers. Their attitudes to China's Communist party vary widely, from enthusiastic support to overt opposition, with the majority accepting the status quo. She also points out that private-sector entrepreneurship takes different forms in different regions of the country. So the term "middle class" covers a multitude of differences.

Pavan Varma, the director-general of the Indian Council for Cultural Relations, also thinks that in at least one respect the middle class of his own country behaves more like members of its elite than as a dis-

tinctive group of its own. Both, he says, have similar attitudes to the poor. Traditionally, the middle class has supported meritocracy and upward mobility, more than the elite has done. Yet, according to Mr Varma, the Indian middle class shows little inclination to fight the corruption, bad governance and incompetence that hold back the poor and block upward mobility through education. Unlike its peers in other emerging countries, it has largely given up on public education, paying for private schools for its own children.

The most important division, however, is probably between the middle class created by the actions of the state and its equivalent created by its own efforts in the private sector. The first group contains managers and white-collar employees of state-owned enterprises, accountants and civil servants, and teachers and doctors in the public education and health systems. The second group covers private entrepreneurs, their employees and archetypal small shopkeepers.

To see how much these groups differ, consider economies in which oil plays a large part. Here the middle class is often puny or distorted. A 2003 survey by Tatyana Maleva of the Independent Institute for Social Policy in Moscow found that only just over 20% of Russians were middle-class by income or occupation. Depressingly, this was a smaller share than on the eve of the October revolution of 1917, when a quarter of the population was estimated to have been middle-class. In most countries with Russia's income levels the middle class accounts for half the population or more.

The distortions in the Gulf states are even more conspicuous. Kuwait has both a public-sector and a private-sector middle class, but they are totally separate. Over 95% of adult Kuwaitis work for the government, usually in white-collar civil-service jobs. The emirate also has a thriving private-sector middle class, but it consists almost entirely of foreigners.

Considered as a group of consumers, a middle class created by the state is unlikely to behave any differently from a private-sector middle class. Its members will buy the same branded goods, save up for the same houses, sign up for the same credit cards and aspire to put their children into the same schools. But there are question marks over whether the public-sector sort has the same entrepreneurial drive, political impact or capacity to sustain high economic growth over time.

Brazil offers a case study in the differ- ▶▶

ences between a middle class created by the state and one that owes more to the private sector. In 2008 Brazil became a middle-class country by its own reckoning. In April of that year Brazilians with household incomes ranging from 1,064 reais to 4,561 reais a year, which is the middle of the country's income range, were found to make up nearly 52% of the population, up from 44% in 2002 and only one-third in 1993. **Marcelo Neri of the Getulio Vargas Foundation**, which carried out the re-

search, says it shows Brazil has at last become a middle-class country after decades of effort.

The first big growth spurt took place in the 1960s behind high tariff walls. The middle class expanded fast thanks to jobs in state-owned companies, the public education system and the bloated civil service. "We grew the middle class faster than would have been possible with pure market forces," says Marcelo Giugale, the World Bank's chief economist for Latin

America. "But it was the result of state policy, not growth." Income inequality also rose dramatically. By the 1980s Brazil had become the world's most unequal society.

Moreover, the economy was prone to slumps and episodes of hyperinflation. That made the middle class poorer (not least by destroying its savings) and caused it to rebel. "Our middle class was no longer willing to live in a closed society," says Mr Giugale. "People have become more outgoing and technologically savvy. They don't

What do you think?

A special poll on middle-class attitudes

ECONOMIC studies of the middle classes are plentiful, but opinion-poll research—especially involving international comparisons—is thin on the ground. So *The Economist* asked the Pew Research Center to trawl through its Global Attitudes database for this special report.

Pew looked at 13 middle-income countries in which the middle class is large or growing and classified their responses to questions about religion, democracy, life satisfaction, homosexuality and the environment by income. The threshold it used for "middle-classness" was a self-reported income of \$4,286 a year in 2007 PPP dollars, consistent with the range of \$4,000-17,000 a year used by the World Bank. Pew then compared these answers with the rest of the sample. Its middle-class group included the rich (defined as those with over \$17,000 a year), but their numbers were not statistically significant. The survey therefore compares the attitudes of the global middle class with those of the poor in the same countries. Andrew Kohut, the Pew Research Center's president, describes it as "the most comprehensive analysis of the ways in which the middle class in emerging markets differs in its attitudes to life and society".

The differences can be large. In half of all responses there was a gap of five to 15 percentage points between the answers given by the middle class and by the poor. For example, 52% of middle-class Venezuelans but only 42% of poor ones say homosexuality should be accepted as a way of life. The middle-class differences run mostly in the same direction. The middle class is more likely to see competitive elec-



tions as important (by an average of 8 points); somewhat more concerned about global warming; and less religious than the poor (for full results, see pewglobal.org/middleclass).

The biggest differences are in so-called "life satisfaction". Asked to rate their personal position on a ten-point scale of satisfaction, middle-class respondents are far more likely to put themselves near the top than are poor ones. The finding is consistent with polls showing that countries tend to become happier as they get richer. But the differences in current satisfaction are bigger than might have been expected

(see chart 5). The middle class is also far more likely than the poor to expect a better life in future. These findings qualify the common view that economic growth unleashes myriad discontents.

The Pew survey also provides evidence to support two other arguments put forward in this special report. One is that the middle class varies a good deal from place to place. The gap in attitudes between the global middle class and the poor seems greater in most of eastern Europe and Spanish-speaking Latin America than in, say, Egypt, India and Brazil. The second is that the middle class supports democracy, which the poll bears out. Given widespread scepticism about this, it is perhaps the most striking finding of all.

Middle-income people are more likely than the poor to say they want competitive elections with at least two parties; more likely to demand fair treatment under the law; and more disposed to back freedom of speech and the press. However, their attitudes about politics do not differ quite as much from those of the poor as they do on religion, homosexuality or happiness. It is also true that these indicators are blunt instruments for describing often subtle attitudes.

Still, the findings are consistent across all questions and across all countries (even in Russia, where backing for democracy is low, half the middle class supports fair elections, compared with barely a third of the poor). The poll, concludes Mr Kohut, shows that "when they make it into the middle class, people in emerging markets want the kind of governance associated with rich nations."

► want their kids left behind by what the rest of the world knows. This is the middle class of satellite dishes and political activity. If you want to be middle-class now, you have to earn it; you can't have a state that creates a middle class as you could 40 years ago."

Private-sector growth and openness to trade has so far proved a more reliable engine of growth for the middle class than the old state-directed version. Between 2001 and mid-2008 Brazil experienced a long period of growth with low inflation, something it never managed in its earlier stop-start period.

By squeezing inflation out of the economy, argues Santiago Levy of the Inter-American Development Bank, Brazil has enabled people to expand their planning horizons and take out credit, which has soared. This has allowed a new middle class—a younger generation, mostly in their 30s and 40s—to start building up assets. By encouraging growth and improving the labour market, Brazil has greatly expanded the number of jobs in the formal economy (which matters because its informal sector is unusually large). Formal jobs, with health and pensions benefits, are a middle-class preserve. In the first quarter of 2008 Brazil's six largest cities created a record number of new jobs. **Mr Neri** talks of "the return of the *carteira de trabalho*" (the employment registration book that comes with a formal-sector job).

Moreover, thanks partly to a government cash-transfer scheme called Bolsa Família, aimed at the poor, Brazil has reversed the vast rise in income inequality



Where's the file with the entrepreneurial drive?

that accompanied the earlier period of state-led middle-class expansion. The Gini coefficient, a measure of income inequality, fell from 0.628 in 2003 to 0.584 in early 2008, which by the standards of this index amounted to a social revolution. Vinod Thomas, the World Bank's former country director in Brazil, reckons the lessening of income inequality has come in roughly equal measure from cash transfers to the poor, better education and jobs growth. Brazil's poorest provinces are growing faster than its richer ones, helping to narrow the gap between its rich and its poor regions (whereas the opposite is true in India and China).

The emergence of a new middle class in Brazil has gone hand in hand with an in-

crease in political stability. If the next presidential election is held in 2010, as planned, it will be the fourth one in a row to be conducted under the same rules. The last time that happened was in the 19th century.

Brazil's economic record is not all jam. As Marcelo Carvalho of Morgan Stanley argues, the country owes more of its recent growth to the commodity boom than its policymakers realise, which suggests that it is more vulnerable to the downturn in raw-material prices than its leaders think. Even so, seen through the eyes of the middle class, recent times compare favourably with the period of economic take-off in the 1960s. In Brazil, the middle class is at last delivering on its long-standing promise of growth, stability and equality. ■

Notions of shopkeepers

Why the new middle classes are so good for their countries' economies

MOST Western businessmen think the middle class in emerging markets matters because of its spending potential. One day those billions of Chinese, Indians and Brazilians will be buying awesome quantities of toothpaste or computers. A global consumer society will be born.

Walking around the stores of Sanlitun Village, a shopping mall in central Beijing, it is tempting to imagine that those dreams are already coming true. Young Chinese couples dressed to the nines ogle the latest computers and BMWs. The architecture looks like a collection of recent interna-

tional design-award winners: the Apple store a cool glass box, the Adidas one a jagged shard of orange and ochre, all arranged around the obligatory skating rink.

It's magnificent, but it is not the typical middle-class shopping experience. A more representative specimen can be found in central India, a five-hour drive from Hyderabad, on the outskirts of Gulbarga in Karnataka state. This shop, described by Abhijit Banerjee and Esther Duflo, is a dimly lit corner of a family house. The goods are kept in plastic jars: one of snacks, three of sweets, two of chickpeas, 20 teabags, three

packs of washing powder—22 products in all. The family also runs a scrap-metal business and earns between \$2 and \$4 a day. During a two-hour visit, two customers came by. One bought a box of incense, the other a single cigarette.

Yet between them the village shopkeepers and the yuppie shoppers are changing the economies of both their home countries and the globe. Surjit Bhalla reckons that the larger a country's middle class, the faster its economic growth: according to his calculations, a nation's growth rate rises by half a point ev- ►►

► Every time the size of the middle class increases by ten percentage points (so if a country's middle class accounts for 50% of the population, it will, other things being equal, have a growth rate one percentage point higher than a country whose middle class makes up 30%).

Bill Easterly of New York University reaches similar conclusions, though he defines the middle class differently. "Countries with a middle-class consensus", he says, "have higher levels of income and growth...more human capital and infrastructure accumulation...better economic policies, more democracy, less political instability, a more 'modern' sectoral structure and more urbanisation." On his measurement, an increase of one standard deviation in the middle class's share of national income is associated with one extra percentage point of growth per person.

Why should the middle class encourage growth? The simplest explanation is that it doesn't. The middle class and growth go hand in hand because they are both results of something else: economic policies. In essence, the policies that made possible China's vast increase in wealth over the past 30 years were determined by just one man: Deng Xiaoping. There was no frustrated incipient middle class urging change in 1978. It was a similar story in India in 1991: the middle class grew bigger thanks to the willingness of Manmohan Singh, then the finance minister, to tear up the "Licence Raj". At first shrug, the expansion of the middle class seems to be a consequence of change elsewhere, not a cause of anything in its own right.

Avid consumers

Yet there is a handful of reasons for thinking that something special about the middle class itself—some intrinsic quality of middle-classness—contributes to growth, efficiency and the enrichment of a society. The most common argument is that the middle class matters because it does a lot of consuming.

The new bourgeoisie has created an enormous market, even if you ignore wild extrapolations about the future. In 2008 the number of cars sold in the big emerging markets exceeded that sold in America for the first time. In 2007 India had slightly more mobile-phone users than America and China had more than twice as many. Since 1994 business services in a range of emerging markets including India and Brazil have grown by 250-700%; in Europe and America they have roughly doubled.

The newly affluent in emerging markets

echo the tastes of the English middle class 150 years ago. They want travel, improved health services, private schools and better public infrastructure. Like the Victorians, they are also keen on self-improvement. On one (conservative) estimate, 30m Chinese children are learning to play the piano. "The discipline will be good," says one proud mother. On a more frivolous note, Brazil is number one in the world for liposuctions, number two for plastic surgeries (after America) and number four for the number of gyms.

But as Diana Farrell points out, the really transformative thing about middle-class consumption is the signal it sends to producers. The demands of middle-class consumers in the developing world feed investment in new sorts of production, which raises income levels and changes the way business is conducted.

The best-known example is the Nano, the \$2,500 car designed by India's Tata Motors. Until it made its appearance, nobody in the automobile business believed that you could design a proper car that sold for less than about \$5,000. By radically simplifying production and by stripping down the design, Tata's engineers managed to cut that supposed floor price in half.

There is no guarantee that the Nano will succeed. It has been plagued by well-publicised production problems. It may not satisfy its target market, being too cheap for the rich who can afford traditional small cars and too dear for the middle

classes who currently ride motorbikes. But if it does take off, it could change car-buying habits around the world. At one-fifth of the price of a cheap family saloon in the West, some American or European families might decide to buy two or even three Nanos instead.

A similar story has emerged in banking. ICICI, an Indian bank, has cut the transaction costs of banking to far below those of its competitors by adding lots of new features to mobile-phone banking and cutting out layers of waste, says the bank's Mr Vaidyanathan. Just five people manage the 250,000 daily transactions processed by ICICI Direct, its online share-trading arm. The cost of mobile-phone banking in India is roughly one-third of what it is in America. This has made it possible for ICICI to reach previously unbanked customers in India's second- and third-tier cities, reaping further economies of scale. Last year it added 4m new customers.

Seen as a market, the new middle class in emerging countries is still relatively poor but very large, so it provides incentives to offer things that are cheap and can be sold in their millions. In terms of its total spending power, though, it still lags well behind its peers in the rich world; nor is that likely to change soon. According to a World Bank study in 2007, the rich (in this instance meaning everyone with an income per person above the average for Italy, wherever they live) accounted for 57.5% of total world income in 2000, a figure that is likely to rise to 69% by 2030 (because the ranks of the rich are swelling, too). The share of world income taken by the global middle class (on \$13-50 a day), at 14%, will remain more or less flat between 2000 and 2030. So its role in consumption can be only part of the story.

Keen investors

To grasp the true economic significance of the global middle class, says Daron Acemoglu of the Massachusetts Institute of Technology (MIT), you have to look at the second main reason why it contributes to growth. It is more committed than the elite to a mixed, competitive economy.

For many rulers in poor and middle-income countries, political control is based on control of resources, especially land. The aristocrats of pre-industrial Europe were all landowners. Nowadays the same sort of political control is exercised in oil-rich economies through control of the oil fields and the distribution of oil wealth.

An elite that depends on land or raw materials, argues Mr Acemoglu, tends to be ►►



In the pink

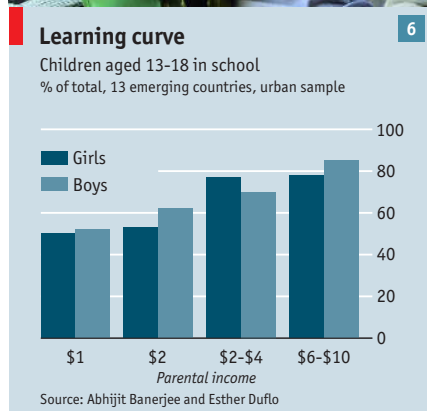
► wary of new economic activities that might compete with its source of wealth and erode its political power. And since openness to foreign ideas is the single most important source of new technology and skills in developing countries, a reluctance to invest in new things is also likely to keep an economy more technologically backward, less skilled and more inward-looking. This can suit the elite perfectly well.

Consider Russia since the Kremlin elite expanded its influence over the oil sector under Vladimir Putin (who is now prime minister). The oil industry has lost foreign technical input, the country has become less open to the outside world and the influence of the middle class, already weak, has ebbed further. The Kremlin regards this as a success.

Unlike the Kremlin, the emerging-market middle class does not have a political monopoly to defend. Its members are therefore more willing to invest in businesses and technologies that might offer competition to the elite; they are also more likely to be open to the outside world. So middle-class growth, trade openness and new businesses tend to go together. That is in evidence in China, whose elite is not gorging itself on oil money. There, the cities of the eastern seaboard, especially in the Yangzi and Pearl river deltas, are the fastest-growing, most technologically advanced, most open and also most middle-class areas of the country.

Thanks to this middle-class predilection for investment, China has been able to tread a classic path towards increasing the value of its exports. Starting in the 1980s with labour-intensive activities like simple plastic assembly and mass-market textiles, it moved into more capital-intensive but low-margin electronics and consumer goods in the early 2000s and is now trying to move further up the chain into higher-value electronics and business services. A single town half-way between Shenzhen and Guangzhou, in an area which used to be all collective farms, started off making toys in township and village enterprises and by 2002 was producing 40% of the magnetic recording heads used in hard-disk drives throughout the world.

Something similar is happening in India, albeit in a more confusing manner. Whereas China exports a relatively narrow range of products, India exports all kinds of goods, ranging from those typically made by very poor countries to those produced by very rich ones, and everything in-between. It has huge capital-intensive businesses such as steel and ship-



building, labour-intensive ones like making T-shirts and farming, and low-capital but high-skill ones such as information-technology services. The mix partly reflects the Indian middle class's willingness to invest in almost anything.

Creating human capital

But aptitude for investment is only part of what makes the middle class important to economic growth. Mr Banerjee of the MIT's Poverty Action Laboratory, who with Ms Duflo did an extensive analysis of the emerging world's middle class, lists three more characteristics that are just as vital.

First, the middle class is committed to education. Current theories about economic growth stress the importance of what economists call "human-capital accumulation". Human capital means more children at school and university, higher educational qualifications, more adult education and healthier lives. The more advanced the economy, the more educated people are needed to control the processes of wealth creation (more computer designers, more logistics technicians and more

white-collar workers in general). The richer the country, the higher its human capital, and vice versa.

Education is high on any list of middle-class values. Around the world, parents scrimp and save to send their kids to school and compete with one another to get into the best schools. The middle class invests more in the next generation than do either the poor or, in one way, even the rich. Middle-class families do not take their children out of school to work in the fields or in a sweatshop because they do not need the tiny extra income a child's labour brings in. In several countries, school enrolment rates for children aged seven to 12 in families earning \$6-10 a day are twice as high as in families on less than \$2. Members of the middle class are also more likely to let their children stay on at school as teenagers, especially if they live in cities. Among the rural poor, fewer than half have children aged 13-18 in education, whereas among those living in cities and earning over \$2 a day the figure is over three-quarters (see chart 6).

The rich in emerging markets certainly believe in educating their own children. But they often do not support universal public education, for fear that this will lead to demands for more democracy and challenges to their political dominance. The middle class in most countries strongly backs state schools.

As you would expect, middle-class families also spend proportionately more money than the poor on their children's education. Mr Banerjee and Ms Duflo sifted through household-spending accounts in 13 developing countries and found that in Nicaragua, for example, those on less than \$1 a day spent 5.6% of their income on schooling; those on \$2-4 a day spent 8.6%; and those on \$6-10 about 9%. Mexico, Peru, Indonesia and Panama all showed a similar pattern.

Part of this extra money goes on keeping children at school for longer, but most is spent on private-school fees or on private tutors after school hours. Especially in India, private schools (many costing as little as 50 cents a day) are springing up everywhere. According to one study, two-fifths of all boys of secondary-school age in urban India are getting some after-school tutoring.

Moreover, these numbers understate how much middle-class people are spending per child. In emerging markets, Mr Banerjee and Ms Duflo found, middle-class families have fewer children than the poor. Among the very poorest (those scraping by ►►

▶ on less than \$1 a day), the number of children in the household ranged from 1.8 to 3.6 per adult woman. In families that live on \$6-10 per person, the average number of children per household was between 1 and 1.3 (these figures do not include China so they are not influenced by that country's one-child policy). The middle class spends substantially more on each child.

The same sort of thing is happening in health care, another aspect of human capital: middle-class people lead healthier lives than the poor, go to the doctor more often and spend more per visit. If investing in human capital is the key to growth, then a large middle class will make that key easier to find.

Natural entrepreneurs

The middle class's third distinctive contribution to growth is its gift for entrepreneurship. "Armed with a capacity and a tolerance for delayed gratification," says Mr Banerjee, new entrepreneurs "emerge from the middle class and create employment and productivity growth for the rest of society."

The middle class is better at entrepreneurship than the elite partly for the reasons cited by Mr Acemoglu: it is more likely

to invest in new businesses and more willing to learn new ways of doing things. But that is only part of a wider picture.

The middle class is more numerous and more heterogeneous than the rich, and therefore more likely to produce both a mass of hard-working business people and a few exceptional entrepreneurs: people such as Nandan Nilekani, one of the founders of India's Infosys and *Forbes* magazine's Businessman of the Year for Asia in 2007; or Li Qinfu, a former Red Guard who built a miniature replica of America's Capitol in Shanghai as headquarters for his textile and manufacturing conglomerate—and put a three-tonne statue of himself on the top.

Most importantly, argues Mr Banerjee, the cream of the middle class is a better source of entrepreneurship than the poor because it can set up companies big enough to create lots of jobs. Profitable investments often incur substantial fixed costs. The dream of a couple of college kids with a few savings creating an Apple computer in a garage could come true only in a rich country, with a big financial sector and a low-cost distribution system. Emerging markets do not have those.

Businesses owned by the poor—and, in-

deed, by the poorer end of the middle class—remain resolutely small. Hardly any of the companies owned by people earning less than \$10 a day surveyed by Mr Banerjee and Ms Duflo had more than three employees. Most were run by one person. To create companies that employ tens or hundreds of people, you need hundreds or thousands of dollars. If, say, a talented car mechanic in central India or north-west Brazil wanted to set up a string of garages, he might well need \$10,000-worth of equipment. In the absence of a sophisticated banking system, his chances of borrowing that sort of money would be remote. So setting up new companies of any size usually requires resources available only to the rich—who may not be interested—or to the well-off middle class. Infosys was created by seven people from this sort of background. One was the son of a schoolteacher, another the son of a textile-mill manager. A third pawned his wife's jewels to help raise money. Infosys now employs 91,000 people.

The middle class's last distinctive contribution to growth comes through its support for the right economic policies and its backing for democracy. That is the subject of the next article. ■

The other Moore's law

"No bourgeoisie, no democracy"; Barrington Moore may have had a point after all

In December 2008, 300 people in China risked arrest to sign and distribute a document called Charter 08. It demanded the abolition of Communist Party rule, free elections, a new constitution, separation of powers, an independent judiciary and freedom of expression, assembly and religion. Charter 08 was not a specifically middle-class manifesto. Its most notable—and, to the Communist government, alarming—feature was the wide range of those who had signed it: farmers, former party officials, dissidents from the Tiananmen Square era, a Tibetan blogger.

But the signatories did include representatives of China's new middle class, especially lawyers active in the so-called "rights movement" who take up cases involving property law and environmental protection. The document calls for the protection of private property, a quintessentially middle-class concern everywhere. Although the official media stifled news of

the charter, discussion of it quickly spread on the internet, the favourite medium of China's new middle class. Within a week 5,000 people had added their signatures.

The appearance of Charter 08 came against what might be called the run of play in politics in China and elsewhere in the developing world. The middle class used to be seen as the single most important force in democratisation. Even Malthus had argued that "if we could find out a mode of government by which the numbers in the extreme regions [ie, rich and poor] would be lessened and the numbers in the middle regions increased, it would be undoubtedly our duty to adopt it." In 1966 Barrington Moore, an American historian, pithily summarised decades of scholarly opinion in his formula, "no bourgeoisie, no democracy".

But that view has been changing. Moore's academic successors increasingly see the middle class as marginal to estab-

lishing a democracy. Some of them think that the poor are more influential, others that the main actors are particular individuals, not social groups. In much of the post-communist and developing worlds, the giddy hopes for liberal democracy that grew up after the Berlin Wall came down have given way to a period of disappointment and democratic stagnation. Despite the huge growth in the middle class, the number of elected democracies worldwide, as tracked by Freedom House, an American advocacy group, has been flat since the mid-1990s.

China's 800m-strong new middle class has conspicuously failed to rise up against its rulers. Russia's smaller, weaker middle class seems to have colluded in the reversal of hard-won but fragile freedoms: hence the popularity (across all classes) of Mr Putin. In both countries, middle-class fear of instability seems to have trumped democratic impulses. Their middle classes have ►►



Divided by headscarves, and much else

► also provided some particularly ugly manifestations of aggressive nationalism: for example, during the controversy over the Olympic torch for last year's Beijing Games, and in Russia's war on Georgia.

Middle classes in other emerging countries, faced with the disputes and strains of democratisation, seem more likely to deepen political divisions than to resolve them. That is what has happened in Thailand, where, after a year-long political impasse, the middle class split between the urban groups of Bangkok, many of which allied themselves with the royalist elite, and their peers in the smaller cities and the countryside, who linked up with farmers and with the political groupings of Thaksin Shinawatra, a former prime minister. This split has undermined democracy.

Something comparable can be seen in Turkey, where legal disputes over the wearing of headscarves in public buildings and over the legality of the ruling AK party have pitted the secular-minded middle class of Istanbul against the new, more devout middle class of Anatolia. In South Africa, the split within the ruling African National Congress can be linked to dissatisfaction with its performance by the "black diamonds", South Africans who have worked their way up into the middle class since the end of apartheid.

Worst of all, the middle class has sometimes contributed to the most brutal violence. Kenya is probably the most middle-class country in East Africa but that did not prevent it, in early 2008, from descending into horrendous tribal strife. Sri Lanka and the Indian state of Tamil Nadu are two places in South Asia where the middle class has thrived most. But the Tamil middle class has helped to finance a terrorist group, the Tamil Tigers, and now the Sinhalese middle class is cheering the no less

brutal military offensive against the Tigers by the Sri Lankan armed forces.

In sum, the record suggests that a thriving middle class is not a sufficient condition for democracy. China has a middle class without a democracy. Nor is it a necessary one. India had a democracy before it developed a middle class.

Mutual infiltration

Yet that does not mean to say that the middle class has only a marginal role in creating or sustaining democracy. Its preferences are clear. As the Pew poll mentioned earlier in this special report found, the middle class consistently supports a competitive democracy and freedom of speech and the press. But its actual influence is often indirect, patchy and dependent upon other groups. This is true even in China, which is always cited as evidence that there is no link between democratisation and the existence of a middle class.

Over the past few years China has been swept by two broad social changes, both of which reflect middle-class influence. One is the "rights movement" in which China's new generation of private-sector lawyers is taking up cases of abuse of power, usually by local party officials, and challenging them in the courts. It has been especially active in environmental cases, where lawyers are fighting a rearguard action on behalf of communities affected by environmental degradation, and in property-law disputes, where the vast expansion of home-ownership has caused many conflicts between the new owners and property developers or the state.

The other social change has been the growth of the internet. Last year China overtook America as the country with the largest number of internet users. Most of them are middle-class. Guo Liang of the

Chinese Academy of Social Sciences argues that the spread of the net is transforming what the middle class knows about the world and how its members interact with one another. Large majorities of users say the internet helps them understand politics better and influence political leaders more. And though the government censors and controls the net, he says, it can do so only at the margin.

Perhaps most importantly, the middle class has influenced the aims and make-up of the party itself. China's Communist Party used to be a strongly ideological institution dominated by farmers and industrial workers. Now most of the top party leaders are engineers and other professionals. It has set up a rigid career structure in which leaders are identified early and sent to show their mettle in minor regional posts before re-emerging at the top, like sons of factory owners learning the ropes before inheriting the business. The party is obsessed with qualifications: its leaders all seem to have postgraduate degrees, often from America. It is strongly corporate, hierarchical and career-oriented, resembling nothing so much as any great American corporation in the 1950s. This is mutual infiltration. The party keeps tabs on the middle class; the middle class influences the party. China's middle class has remade Mao's party in its own image.

So what is it about the middle class that influences politics? To oversimplify, its crucial feature is heterogeneity. Compared with the poor and the rich, the middle class contains a greater range of interests. It covers a wide range of occupations: software engineers, shopkeepers, teachers and all the manifestations of economic complexity. On the widest definition, it covers everyone from the almost poor, on \$2 a day, to the almost rich, on \$100 a day. It includes people with barely a foothold on the economic system and those who are pillars of it.

Fifty-seven varieties

Because of this variety, the middle class is driven by a wider range of concerns than either the poor—whose main worry is the need for more money—or the elite, who concentrate on defending their political or economic position. The middle class is not a narrow special-interest group in the same way.

This heterogeneity is important. One test of that importance is what happens when it is absent, or thought to be absent. For example, the Turkish elite fears that the new "Muslim middle class" (the economi- ►►

► cally successful groups from Anatolia who support the AK) is not heterogeneous but merely acts as a single-minded Trojan horse for Islam. Hence the elite's extreme suspicion of those groups. Where the middle is not seen as heterogeneous, the politics of the country is often divisive.

But where variety is the rule (as it usually is), it has two main effects. First, says MIT's Daron Acemoglu, a heterogeneous middle class makes the elite less fearful of democracy than it would otherwise be. The elite fears democracy not just because it might mean giving up its position of power (which actually does not always follow) but also because of the potential effect on its wealth. Land is easy to tax, so a land-owning (or oil-controlling) elite will naturally worry that, if the poor gain greater political influence, they will use it to impose punitive land taxes or land reforms.

Oil-producing countries in which the elite controls the oilfields are hardly ever democracies. And in places where people have grabbed power claiming to represent the poor (Venezuela, Bolivia), the first result has often been swingeing taxes on land or raw materials. Mr Acemoglu argues that a thriving, varied middle class will be opposed to punitive taxes, too, so if the elite thinks the middle class will prevent drastic redistribution, it may be more willing to accept democracy.

A force for moderation

Other things being equal, any group in the middle should act as a moderating influence on social conflicts. By definition, a growing middle class will reduce income inequality because it will moderate the stark divide between rich elite and rural poor that is often a source of conflict in emerging markets. The middle class also tends to be inclusive. For example, non-governmental organisations backed by the middle class campaign for better treatment of indigenous peoples in Latin America.

In India, the middle class has eroded the caste system, especially in the south. Companies such as Infosys make a point of being caste-blind in recruitment. But Dipankar Gupta, a sociologist at Jawaharlal Nehru University in New Delhi, says that even though the importance of caste hierarchy may have declined, that of caste identity—the voluntary association of people of the same or similar castes—has increased, because as people leave their villages, caste often provides the only ready social network in the big cities.

In sum, the middle class acts as a buffer. Sometimes it allies itself with the poor,

sometimes with the rich. That does not guarantee the emergence of democracy, but the presence of a large, varied middle class does make democracy more attractive than if a country is dominated by just two classes. As Aristotle said, "the best political community is one in which the middle class is in control and, if possible, outnumbers the other two classes."

Such a large, varied middle class encourages new policies, often (though not always) more liberal ones. To oversimplify again: the characteristic political demand of the poor is for transfers. They want a new well in the village or electricity for the slums. This encourages a politics of patronage. The characteristic political demand of the middle class is for things like property rights and a stable economic policy. This tends to give rise to a politics of accountability, if not necessarily democracy.

To see the difference, says Arvind Subramanian of the Peterson Institution for International Economics in Washington, DC, consider two examples from India. Mayawati, the chief minister of the country's largest state, Uttar Pradesh, has used her government to dispense patronage to the *dalits* (formerly called untouchables, a poor caste). It has doled out favours to that particular group but done little to improve the lot of other poor people.

In contrast, Mr Subramanian argues, the middle class supports not only those things that specifically benefit its members—such as the Indian Institute of Technology system, the most successful part of

public education—but also things that benefit the nation, notably the decision in 1991 to liberalise the economy. Because the middle class contains so many competing interests, patronage politics—handing out goodies to a favoured few—can end up hurting as many members of the group as it helps, so it becomes less tempting.

Members of the middle class agree on a few basic things. Because they have a stake in the economy and want things to be better for their children, they support pro-growth policies: cautious liberalisation, investment in public goods, open trade. Because their assets are small compared with those of the rich, and comparatively vulnerable to reversals, they tend to be risk-averse, wary of inflation and opposed to economic populism. With the strange exception of Argentina, the middle classes of Latin America are bulwarks of economic orthodoxy and fiscal rectitude.

New York University's Mr Easterly has found that the larger a country's middle class, the lower its indicators of every sort of instability, be it revolutions and coups, outbreaks of civil war, constitutional changes or suppression of civil rights. Which is the cause and which the effect, however, is not so clear.

When an autocracy brings stability, as it has done in China, an approving middle class may be less likely to insist on democracy. But when democracy becomes established, the middle class usually turns into a strong supporter. Latinobarómetro, a polling organisation, found that, in the period from 2001 to 2008, support for democracy rose in 12 of the 18 Latin American countries that have it; most respondents also thought democracy provided the only road to development.

That does not necessarily turn the middle class into a force for democracy and stability. Eventually it brings its own discontents which, as the group becomes a majority, dominate politics: disputes over land (emerging markets abound with historic land-holding patterns that conflict with the interests of the middle class); disagreements over the role of women (middle-class women go out to work more, and have smaller families, causing conflicts with groups committed to traditional ways of life); and so on.

But the more immediate question is not how much disruption will be caused by the growth of the middle class but by its possible decline, at a time when global recession is pushing some of those who have just joined it back into poverty. That is the subject of the last article. ■



Mayawati favours her own

Suspended animation

The recession may bring middle-class growth to a halt for a while—but not for long

OVER the next two or three decades, an expanding global middle class could boost economic growth and encourage democracy (or at least more liberal politics). It could also press for global public goods, such as tougher limits on greenhouse-gas emissions (middle-class people are more inclined than others to worry about the environment). But the main question about the middle class in the immediate future will be different: how badly will it be hit by a global recession?

Since the Asian currency crisis of 1997-99, the middle classes in emerging markets have known nothing but success. For most of them even that currency crisis was just a blip. China's and India's mass middle classes have seen only uninterrupted growth. But the period of rising prosperity is coming to an abrupt end.

Economic growth is slowing much more than anyone had expected only a few weeks ago. China's GDP growth more or less came to a halt in the last quarter of 2008 and many economists are forecasting the feeblest expansion for 20 years in 2009. At the end of 2008 exports from emerging markets were falling at an annual rate of more than 10%. Industrial output is collapsing and many Asian countries face the worst recession since 1997-99.

Against that unpropitious background, three emerging-market giants face elections in the next two years: India, a parliamentary vote by May this year; Indonesia, congressional and presidential votes in mid-2009; and Brazil, a presidential election in October 2010. Other big middle-income countries with elections in the next two years include Argentina, Chile, Colombia, Hungary, Poland, South Africa and Ukraine. China's rulers too have long been worrying about retaining the support of the middle class. Anniversaries in 2009—the 20th of the Tiananmen Square uprising; the 50th of the crushing of Tibetan independence—may provoke protests.

A reversal of middle-class fortunes could have serious effects. As this report has argued, the new middle classes contribute a lot to a country's growth, efficiency and equity—as consumers, as investors in “human capital” and because they engage in a wider range of economic activi-

ties than the rich and are more likely to create jobs than the poor. They also tend to promote liberalisation and, indirectly, democracy by moving their countries away from the politics of patronage. All these good things would be at risk if they were hurt by recession.

There are several reasons for thinking the middle could be more vulnerable to the global recession than the extremes. Though the rich are the most exposed to losses on equity and financial markets, they also have a much greater capacity to absorb the blows, since they have more,



A better class of kitchen sink

and more diversified, assets. As for the poor, the very things that have prevented them doing better in the past 15 years—distance from world markets, lack of exposure to trade—might now come to their rescue. Poverty cushions them from the losses as well as the gains of globalisation.

In contrast, the middle class faces problems across the board: jobs (its members are more likely than the poor to be employed by companies that depend on exports or outsourcing); assets (they have invested in property and shares but house prices and stockmarkets have crashed); and finance (they have put their money in banks or have borrowed from credit companies that are exposed to global markets).

The main relief for the middle class is that many of its members have jobs in the public sector, which can resort to deficit spending. For the moment, therefore, the usual rule that a middle class based on the private sector tends to do better than one which feeds off the public sector may have been suspended.

A second reason for thinking that the middle class may be especially vulnerable is that the largest group within it is dangerously close to the poverty line. This report has argued that in recent years the middle class has surged, not merely expanded along with economic growth. As the fat part of the bell curve of income inequality moves beyond the middle-class threshold, huge numbers are lifted out of poverty. Yet many of them are still perilously close to the borderline.

Slippery slope

Martin Ravallion of the World Bank separates the developing-world middle class (those on \$2-13 a day) into upper and lower tiers, with \$9 a day as the dividing line. On his calculations, the numbers in the upper tier (\$9-13 a day) rose by only 95m between 1990 and 2005, from 139m to 233m. Yet the number of middle-class people as a whole during that period increased by 1.2 billion, so more than ten times as many people joined the lower tier (\$2-9 a day) as joined the upper. Most of them cluster at the very bottom. In 2005, estimates Mr Ravallion, one person in six in emerging markets was living on \$2-3 a day. Such people have only a tenuous hold on middle-class status and risk slipping backwards.

A third reason for worry, argues Homi Kharas of the Brookings Institution, is that the middle classes might “misinterpret the recession”. For most of them, the lesson of the past 20 years has been that good things happen when a country opens up and bad things occur when it turns inward (eg, China's Cultural Revolution or Brazil's military coups). But a period in which emerging countries import recession from rich ones could change people's attitudes.

In Russia the instability of the Yeltsin years convinced many that the country would be better off if it became more self-reliant. And in 2007-08, as food prices

► spiked, governments around the world, including the emerging markets, reacted by imposing export bans, export taxes and many other forms of trade protection.

Moreover, some countries seem more vulnerable to a global recession than others. Brazil and Russia are sensitive to raw-material prices, which are falling. The World Bank forecasts that the volume of international trade will decline in 2009, for the first time since 1982. This will hit countries heavily dependent on exports. Most large emerging nations have built up foreign-exchange reserves and cut their external debts, which will provide a measure of protection. But that is not true of eastern Europe, where reserves have been flat and external debts rising.

For all these reasons, it seems more likely that the new middle classes will be victims of recession, rather than the people to haul the world out of trouble, as the World Bank hopes. But the bigger question is whether the slump will undermine the essential qualities of middle-class behaviour—the propensity to save, to invest in the children's education and so on. The answer to that depends in part on how long the slump lasts. Most developing countries, including the two largest, China and India, expect some growth in the next two years, albeit much less than in 2000-07. Moreover, retail sales tell a slightly less gloomy story and may be better indicators of the mood of the middle class than GDP growth. In China and India they held up surprisingly well in 2008, suggesting that consumers have not gone into their shells.

Much will also depend on public policy, especially in the emerging-market giants. The reactions of the Chinese and Indian governments have been "mature", says Eswar Prasad of Cornell University. In November 2008 China produced a multi-billion-dollar government-spending plan which aims to restore GDP growth to over 8% in 2010. It has plenty of room to increase domestic demand. In India, the picture is more mixed: the country has imposed some restrictions on goods imports but has also liberalised its financial sector.

In general, support for globalisation among the Chinese, Indian and Brazilian middle classes does not yet seem to be waning, as it has done in Russia. That may be because so many people have benefited over the past 15 years that it will take a lot to persuade them to back any radical departures from the way things are. Certainly, few observers expect the coming elections in the three biggest emerging countries to bring drastic changes. India's is likely to



The way it was, and will be again

produce yet another relatively weak coalition government, led by one of the two main parties. Because of Indonesia's complex electoral system, the presidency is most likely to go to the current incumbent or his predecessor, both from secular, mainstream parties. Brazil's election is too far away for a sensible forecast to be made, but since the incumbent president (who is prevented by term limits from standing again) has an 80% approval rating, a rebellion against the status quo looks unlikely.

See you in a couple of years

This survey has argued that, to misquote Scott Fitzgerald, the middle class is different: meritocratic, thrifty, individualistic, committed to education. Some of these attributes and attitudes may be permanent, or at least only partially subject to the vagaries of the economic cycle. Admittedly there is little hard evidence from emerging markets to support or contradict this asser-

tion. But the middle classes in America and Europe do not seem to have changed their outlook radically during slumps. People have usually sought to keep their children in private education as long as they can, for example, cutting back on consumption instead. The spread of the internet and mobile phones may also have reinforced the middle class's fear of being cut off from the technology and information on offer in the rest of the world.

So if—perhaps a big if—the global recession lasts no more than a couple of years, it seems reasonable to expect the engine of middle-class formation to start humming again when growth picks up. There will be another portion of Maslow's pyramid to climb, another political system to change, another step to take towards a global middle class. Until then, there will be a pause, but not an end, to what Marx called "the most revolutionary part" the middle class has played in human affairs. ■

Offer to readers

Reprints of this special report are available at a price of £3.50 plus postage and packing. A minimum order of five copies is required.

Corporate offer

Customisation options on corporate orders of 100 or more are available. Please contact us to discuss your requirements.

Send all orders to:

The Rights and Syndication Department
26 Red Lion Square
London WC1R 4HQ
Tel +44 (0)20 7576 8148
Fax +44 (0)20 7576 8492
e-mail: rights@economist.com

For more information and to order special reports and reprints online, please visit our website

www.economist.com/rights

Future special reports

Business, finance, economics and ideas
Waste February 28th
Entrepreneurship March 14th
The rich April 4th
Health care and technology April 18th
International banking May 16th
Business in America May 30th

Previous special reports and a list of forthcoming ones can be found online

www.economist.com/specialreports