

The new middle classes in emerging markets

## Beyond Wisteria Lane

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### 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 pyramid too, argues Brink Lindsey of the Cato Institute, a think-tank in Washington, DC. 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 this article.

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 middle 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”.

*Gally Images*



**Thatcher set the tone**

For example, Kalle Tsai, a professor at 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 distinctive 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 differences 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 Giugale** of the **Ubirajara Foundation**, which carried out the research, 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 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."



**Where's the file with the entrepreneurial drive?**

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. **WTN** 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 Familia, aimed at the poor, Brazil has reversed the vast rise in income inequality that accompanied the earlier period of state-led middle-class expansion. The Gini coefficient, a measure of income inequality, fell from 0.626 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 increase 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.

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