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Brazil's tale of two middle classes

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Speaking to Melissa Beeby, you would not know that Brazil is enjoying its most prosperous period since the “economic miracle” of the late 1960s, as the country’s last great boom is known.

Like other members of Brazil’s so-called “traditional” middle class, things have become harder for Ms. Beeby in recent years. The prices of meat and petrol have doubled, highway tolls have risen and eating out or buying property have become prohibitively expensive.

“The middle class basically is in debt. That’s how people manage,” says Ms. Beeby, who runs the Bridge Restaurant at the British Centre in São Paulo. “People have more dinners at home and when they do go out, they go to simpler places.”

The story of Brazil’s success in lifting millions of people out of poverty over the past decade has really been a tale of two middle classes.

While headline economic growth has not been as spectacular in Brazil as in China and India, at an average of about 4 per cent a year between 2003 and 2010, the balance of income distribution has improved more rapidly in Latin America’s largest economy than in the other large emerging markets.

In Brazil, mean household income since 2003 rose by 1.8 percentage points a year above the rate of gross domestic product growth, helped by generous increases in the minimum wage and welfare handouts. In China, by contrast, the rise in household income trailed GDP growth by 2 percentage points a year.

On the winning side have been an estimated 33 million people who, since 2003, have risen to the ranks of the so-called “new middle classes” or above. Today, 105.5 million Brazilians out of a total population of 190 million are members of this group, who earn between 1,200 and 5,174 real (\$726-\$3,129) per household. Also better off are the rich, who have profited from a stock market, commodities export and consumption boom.

On the losing side, say sociologists, are the 20 million or so people of the “traditional” middle classes who earn more than 5,174 real per household. Unlike in India, where the old middle class benefited from the creation of new industries, such as information technology outsourcing, many in the Brazilian middle class complain of rising prices, taxes, congested infrastructure and increased competition for jobs.

“In the past 10 years, the income of the poorest 50 per cent of the population grew 68 per cent in real per capita terms while the income of the richest 10 per cent grew by 10 per cent,” says Professor Marcelo Neri of the Getulio Vargas Foundation (FGV) and the co-ordinator of a large-scale study on Brazil’s new middle class.

Even more startlingly, the income of the average illiterate person rose 37 per cent between 2003 and 2009, while that of the person with at least an incomplete university degree fell 17 per cent. "It's upside down," says Prof. Neri.

The changes represent a historic rebalancing of wealth that has been pending since 1888, when Brazil became the last country in Europe and the Americas to abolish slavery, says Prof Neri.

"Incomes are growing more [quickly] in traditionally excluded groups of Brazilian society, such as non-whites, women, those living in the poor north-east, in favelas [slums] or in the outskirts of Brazilian cities," said the FGV study.

The process has been driven partly by increasing access to education. The new middle class has flocked to private universities and technical colleges and begun competing for jobs with the traditional middle class.

Conscious of her support among the poor, President Dilma Rousseff recently launched a new social welfare program, aimed at pulling another 16 million people out of absolute poverty.

Such programs will not win votes among traditional middle classes, however, concentrated in Brazil's industrialized southern states, especially São Paulo. Some complain that the government helps the poor through benefits and wage rises and the rich through subsidized loans for their corporations. This flushes the economy with money, leading to inflation, which the central bank then tries to quell through higher interest rates, penalizing the middle class.

While many in Brazil's traditional middle class agree with wealth redistribution, they are afraid of how much it is costing them.

Ms. Beeby says she is feeling the pressure from both sides, as a consumer and a small business owner. The high price of meat has forced her to raise the price of some dishes. "The people who eat here have felt the difference, too. They complain a lot," she said.

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