Cancer and stem cells
The connection that could lead to a cure
Brazil

Half the nation, a hundred million citizens strong

SÃO PAULO

What the middle class plans to do with its money—and its votes

EVER since it was first spotted amid the factories of western Europe’s industrialising nations, the middle class has borne the hopes for progress of politicians, economists and shopkeepers alike. It remains hard to define, and attempts to do so often seem arbitrary. But in Brazil, the middle class describes those with a job in the formal economy, access to credit and ownership of a car or motorbike. According to the Fundação Getulio Vargas (FGV), a research institute, this means households with a monthly income ranging from 1,064 reais ($600) to 4,564 reais. Since 2002, according to FGV, the proportion of the population that fits this description has increased from 44% to 52%. Brazil, previously notorious for its extremes, is now a middle-class country.

This social climbing is a feature mainly of the country’s cities, reversing two decades of stagnation that began at the start of the 1980s. Marcelo Neri of FGV suggests two factors behind the change. The first is education. The quality of teaching in Brazil’s schools may still be poor, but those aged 15-21 now spend on average just over three more years studying than their counterparts did in the early 1990s.

The second is a migration of jobs from the informal “black” economy to the formal economy. The rate of formal job creation is accelerating, with 40% more created in the year to this July than in the previous 12 months, which itself set a record. Together with cash transfers to poor families, this helps to explain why—in contrast with economic and social development in India or China—as Brazil’s middle class has grown, so the country’s income inequality has lessened (see chart).

Entering the middle class brings a predictable taste for yogurt and other luxuries. But when shopping, middle-class Brazilians are more conscious of status than middle-class North Americans or Europeans. “These are people who may ordinarily serve others,” says Nicola Calicchio from McKinsey, a consultancy, “so being attended to by someone is very important to them.” Middle-class Brazilians may avoid the glitzy stores that cater to the rich, but they do not want their surroundings to look cut-price either. That may be true elsewhere, too, but a sensitivity to surroundings—not wanting to be made to feel cheap—is particularly marked in Brazil.

Awareness of fashions and brands is still largely shaped by the nightly soap operas broadcast on terrestrial television and watched by an audience of tens of millions. Since these are for the most part produced in Rio de Janeiro and feature characters drawn from the upper-middle class, they tend to reflect a world where good-looking white people in expensively casual clothes flit around in a perpetual summer, attended by maids. This may go some way to explaining Brazil’s demand for gyms and beauty products. Some 600,000 cosmetic operations are performed in Brazil annually, the highest total of any country apart from the United States.

The market for cosmetic surgery extends surprisingly far down the income scale, thanks to readily-available credit (nips and tucks can often be paid for in ten instalments). Rapid growth in credit, which was non-existent until fairly recently because of sky-high interest rates, has helped to boost the purchasing power of the middle class. Some 65% of car purchases are paid for in instalments, over an average of 42 months. However, borrowing by individuals remains relatively low as a share of GDP, mainly because so few people have mortgages. It has also been underpinned by low unemployment and rising wages.

But the growth has been so fast—credit grew by 20% in the year to July—that some are worried. “I think if you asked all the banks individually they might say that they wish to scale back lending,” says Ilan Goldfajn of Ciano Investments, “but none
of them wants to lose market share. In the meantime, riskier kinds of credit, such as overdrafts and credit cards, are growing faster than overall borrowing. Mr Goldfajn thinks it may already be too late for Brazilians to avoid a painful hangover from the current exuberance.

To the ballot box
What impact will a larger middle class have on politics? Past polling suggests people in this income bracket would tend to favour the centre-left Party of Brazilian Social Democracy (PSDB) of former president Fernando Henrique Cardoso over Luiz Inácio Lula da Silva's Workers' Party (PT).

Yet according to Mauro Paulino of Datafolha, a pollster, Lula's personal popularity and his government's social programmes have disturbed this equation. Those who have moved up from class D to C and experienced help from the government along the way, are likely to stick with the PT, he says. David Fleischer of the University of Brasilia has calculated that PT candidates, or those allied with the party, are at present ahead in 20 of out 26 mayoral races for state capitals in next month's municipal elections.

The middle class has meanwhile reshaped the PT in its own image: the party's wilder economic rhetoric is now muted. It also has to pay attention to a group of voters that has risen into the middle class and brought with it socially conservative attitudes towards abortion and gay marriage. But it remains ironic that this great social transformation, which has been brought about in part by greater openness to trade with the rest of the world, may end up bolstering a party that, until fairly recently, favoured autarky.

Peru and Brazil

Connecting to the world

A president goes to market

ALAN GARCIA seems determined to leave his presidential mark on Peru's economy—not just by implementing, with a January 1st deadline, free-trade agreements with Canada, Singapore and the United States and by negotiating future trade deals with China and South Korea, but also by cozying up to the region's economic power, Brazil. On September 18th and 19th Mr Garcia will head a delegation, including half his cabinet and more than 200 business leaders, to see Brazil's president, Luiz Inácio Lula da Silva, in São Paulo.

With luck, it will be a fruitful visit. According to Jorge Taunay, Brazil's ambassador to Peru, Brazil could become the top foreign investor in Peru in the next ten years thanks to investments in energy, mining and manufacturing (last year Brazil was the ninth biggest direct investor, with Spain leading the way at the end of the year with some $5.2 billion out of the $16.1 billion recorded in total).

Since late August, three Brazilian mining companies, Votorantim Metais, Vale and Gerdau, have each announced large investments and acquisitions in Peru. Gerdau pledged $1.4 billion on September 1st to increase production, mostly for export, at Siderperu, a steel company that it took control of two years ago for some $60m. Vale, the world's second largest mining company, has two projects under development in Peru and Votorantim has just pumped another $500m into its Peruvian zinc mine and is trying to take control of the lead, zinc and silver mine at Milpol. In addition, Brazil's state-controlled oil company, Petrobras, has tentative plans to plough nearly $3 billion into Peru over the next decade, quite apart from other state-controlled Brazilian utility companies exploring the idea of hydroelectric plants along the border between the two nations.

But Mr Garcia's strategy goes beyond inward investment: he wants to make Peru a bridge for Brazil to markets in Asia and North America. Significantly, he has invited President Lula to visit Peru when it hosts the November summit of the 21 Pacific Rim countries of the Asia-Pacific Economic Co-operation (APEC) forum. The idea is that Brazilian companies producing in Peru—such as Gerdau—would be able to take advantage of the various actual or potential free-trade agreements. One beneficiary would be Brazil's ethanol industry, which has little access to the United States, its largest market, because of an American import tax. By producing sugarcane-based ethanol in Peru, whose northern coast has an output of 311 tonnes per hectare, compared with the Brazilian average of 77 tonnes, Brazilian companies could gain tariff-free access to the United States.

The prospect of a bridge to Asia depends on the construction of three roads, each being built by Brazilian-led consortia, to connect Pacific and Atlantic Ocean ports. The most ambitious is a $2.3-billion highway that will link the port of Santos in São Paulo to three ports in Peru. This should be finished by the start of 2003 and will cut several weeks of travel time for Brazil's exports of soybeans and minerals. Similar roads are being planned with Bolivia and Ecuador, but neither country offers the same infrastructure as Peru. Meanwhile, as its businessmen spy the chance to supply farm exports to Brazil's western states (so saving them the cost of transport from the Atlantic coast), Peru is mounting a food festival in São Paulo ahead of Mr Garcia's arrival in Brazil. "Peruvian gastronomy", says Miguel Vega of the Peru-Brazil chamber of commerce, "is the link that will involve the people of Peru and Brazil in the strategic alliance being formed by our countries." Buen provecho, bon appetit.

Venezuela's traffic

Jam today

CARACAS

The price of cheap petrol

EVERY weekday morning, Zarhay Infante leaves home in the Caracas dormitory town of Guarenas shortly after 5am. If the journey goes well, she reaches her office in the capital, some 30km (19 miles) away, around three and a half hours later. "Three years ago, when I started doing this," Ms Infante says, "I could get to Caracas in 45 minutes on the motorway. But it gets worse every day."

This road congestion is tribute to an economic growth which, thanks to the rise in the oil price, has averaged around 9% a year since 2004. But it is also a failure of public policy. Caracas, a city of some 2m, is crammed into a narrow valley flanked by mountains. Many of the 3m people living in the surrounding suburbs commute to the capital each day. No new major roads have been built in the Caracas conurbation since the 1970s, while in that time the number of cars in the area has risen from 200,000 to over a million. In the five years from 2002 to 2007, around a quarter of a million private vehicles were added, including 70,000 in 2006 alone. The city has become gridlocked, with rush-hours replaced by semi-permanent congestion. Travelling a