

Furness, Mark; Scholz, Imme; Guarín, Alejandro

Research Report

History repeats? The rise of the new middle classes in the developing world

Briefing Paper, No. 19/2012

Provided in Cooperation with:

German Institute of Development and Sustainability (IDOS), Bonn

Suggested Citation: Furness, Mark; Scholz, Imme; Guarín, Alejandro (2012) : History repeats? The rise of the new middle classes in the developing world, Briefing Paper, No. 19/2012, Deutsches Institut für Entwicklungspolitik (DIE), Bonn

This Version is available at:

<https://hdl.handle.net/10419/199700>

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History Repeats? The Rise of the New Middle Classes in the Developing World

Summary

The hundreds of millions of people in Asia, Latin America and Africa whose incomes have increased over the last decade or so have been called the “new middle classes” of the developing world. This group is getting bigger. Their unprecedented size — likely to reach the billions by mid-century — means that these new middle classes will play an important role in their countries and beyond.

If we define the middle classes as those who spend between US\$ 10 and 100 (purchasing power parity, PPP) per day, by some projections this group will grow by more than one billion people in Asia alone in the next decade. The new middle classes will dwarf the “old” ones soon, shifting the centre of gravity of world consumption.

In the West, the middle classes are seen as a huge part of the success story of the post-war years. They are considered fundamental for sustained economic growth, democracy and good political institutions. If this happens in developing countries, then it will be good news. But will it? A simple replay of history is unlikely.

We do not know how society will change as incomes grow for millions of people in the developing world.

The new middle classes could become forces for political, economic and social change both domestically and globally. But the opposite can also happen: once well established, they could act conservatively to protect their own positions and prevent further social change. This uncertainty presents a diverse set of challenges for development policy.

First, people tend to use up more natural resources as they get richer. Reducing the environmental footprint of consumption must therefore be a global concern. Second, the growth of middle classes will not necessarily foster greater social inclusion. Development policy needs to prioritise reducing inequality as well as promoting growth. Third, rising incomes will not automatically lead to Western-style democracy. Open political systems should be encouraged regardless of the outcomes of political processes. Fourth, improved global governance is not a given. International cooperation among countries with larger and more assertive middle classes may become more difficult and complex.

Rates of absolute poverty are falling around the world. With declining poverty comes newfound wealth: many who previously had nothing now have a little bit. These people have been called the “new middle classes” of the developing world — and there are good reasons to pay attention to them. To be sure, most developing countries already have a middle class, even if it is relatively small. What is different now is the scale. Hundreds of millions of people — most of them in Asia, but also in Latin America and Africa — will make up the largest group of consumers in history.

Calling this group the new “middle classes” can be misleading. This term has strong cultural, social and political connotations; we should be cautious of applying it to what, until now, appears as changing income patterns. And yet, regardless of the label, the very scale of the phenomenon ought to call our attention. Rising incomes worldwide will shake up the markets. Governments will not be able to ignore changing demands and opinions. And the international community – used to thinking that rich countries should give money to poor countries – will have to reconsider the meaning of international development cooperation. Who are these new middle classes? Why should we care about them? And what could they mean for development policy?

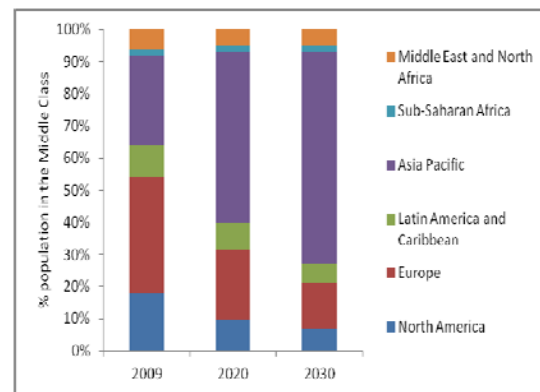
Who (or what) are the new middle classes?

There is no clear consensus about how to define the middle classes. Class has both economic and social aspects, so a starting point is to refer to people who belong to a certain income bracket: they are not rich, but neither are they very poor. Economists debate the specific levels of income that delineate the middle class from those above and below them. Some include all those who are just above the poverty line — those who can spend around US\$ 2 per day in many developing countries (all values are PPP). Others have proposed thresholds of US\$ 4, 10 or 20, and upper limits from US\$ 4 to 100 of income per day.

Such a broadly defined group is not homogenous. Some people in the new middle classes are near-poor while others are well-off. Moreover, the income ranges used in some of these definitions are low by Western standards: in Germany, for example, someone earning less than US\$ 36 per day would be considered poor. Yet in poor countries, even small increases in income can have a considerable effect on a person’s purchasing power. Some extra income is used to buy non-basic goods, but most of it is channelled towards improving health, education and housing.

The scale of the phenomenon is unprecedented. If we define middle classes as those whose daily expenditures range between US\$ 10 and 100, then by some projections this group will grow by more than one billion people in Asia alone in the next decade. The new middle classes are likely to outnumber the “old” ones in the not-too-distant future (Figure 1). The centre of world consumption — and not just its population — is clearly moving away from the West.

Figure 1: The changing regional share of the global middle class*



*Those with daily expenditures between US\$ 10 and 100. Source: Kharas (2010)

Why should we care about the new middle classes?

We care about the growing middle classes in developing countries because we expect a lot from them. Why? In Western countries, the middle classes have been a main social, economic and political point of reference, particularly since the Second World War. Wealthy countries from Canada to Japan take pride in being largely a middle class society. This is not just about economic prosperity: the middle class is seen as part and parcel of an inclusive, democratic and well-governed society.

If something remotely like this were to happen in the developing world, it would have enormous consequences. The numbers tell us that the economic outlook is improving for vast numbers of people. And yet the label “middle class” implies much more. The following features are commonly associated with the Western middle classes. They give us a set of reference points to the possible role of middle classes in shaping the futures of their countries and of the global community.

Prosperity and consumption: Up to about 60 per cent of the populations of Western Europe, North America, Australasia and Japan could be defined as middle class. This means that most people in society can enjoy relatively comfortable living standards, including decent jobs, health care and annual holidays. This comfort, however, has been environmentally costly. The prosperity of the middle classes is intensive in terms of their consumption of natural resources and services.

Inclusiveness: The middle classes embody a social contract in which economic and political power are shared and subject to public scrutiny. In many wealthy countries, this creates a feeling of “classlessness”: everyone is subject to the law, no-one should feel inferior to anyone else and everyone can identify with common values. Middle-class people share a sense of social responsibility through paying taxes, and they expect the state to provide infrastructure, education and social services.

Political transformation: Thanks in part to the broad middle class, liberal democracy became the dominant form of political system in the developed world in the 20th century. This process also meant transforming public institutions to make them more transparent and accountable, and for balancing against undemocratic forces, including those of the market.

Peace: Comfortable, well-governed countries tend not to fight each other, but prefer to cooperate. This has led to a global web of institutions for maintaining peaceful international relations. The Western middle classes have entrenched these values politically as well as disseminated them through soft power, as expressed in film, music and other forms of popular culture.

This list is not exhaustive, and these features do not apply everywhere. “Middle class” has become a slippery term even in wealthy countries, where the recent financial and unemployment crisis has prompted debates about the erosion of the middle class. Even before the crisis hit, many oft-touted “middle class characteristics” were as much myth as reflections of reality. And yet this ideal is our reference for assessing the potential significance of the new global middle classes.

What are the implications of the new middle classes for development policy?

Rising incomes are important for development, but they are not enough. Development also involves changes in social structures, institutions and human capabilities. The rise of middle classes has been described in terms of incomes and growth; we should not assume that other things will inevitably follow. In particular, we do not know whether middle classes will become forces for change or whether, once established, they will act to protect their own positions.

This uncertainty presents diverse challenges for development policy. In thinking about the significance of the new middle classes, we need to be cautious not to assume the inevitability of history, yet be able to foresee some likely trends. Policy makers can begin to consider options for action in the following four key areas.

Consumption patterns and their implications for ecological sustainability: Until recently, a relatively small proportion of the world’s population has been responsible for the biggest burden on natural resources and ecosystems, but this is likely to change. An increasingly large and wealthy global middle class is bound to have an effect on the environment that, by comparison, will dwarf that of the Western middle classes. The disposable incomes of the majority of the new middle classes may be lower, but the numbers are much bigger. There is no easy way to predict the environmental impact of this heterogeneous group of new consumers. Some see a doomsday coming if all Chinese and Indian households pursue a lifestyle similar to that of the US middle class. Yet, on the other hand, the middle classes are likely to be better educated and, as a result, much more conscious about the consequences

of their consumption. How the new consumers define what a “good life” means is an open — yet crucial — question.

For development policy, the main implication is that the pursuit of sustainable lifestyles cannot be exclusive to the developed world. Reducing the environmental footprint of consumption must be a global concern, and developing countries must figure prominently. Facilitating technology transfer and leapfrogging old technologies are solutions within reach. Incentives to reduce and to “green” energy consumption and improve the efficiency of agricultural production will be central to managing growing numbers of consumers. A more fundamental redefinition of prosperity may be needed.

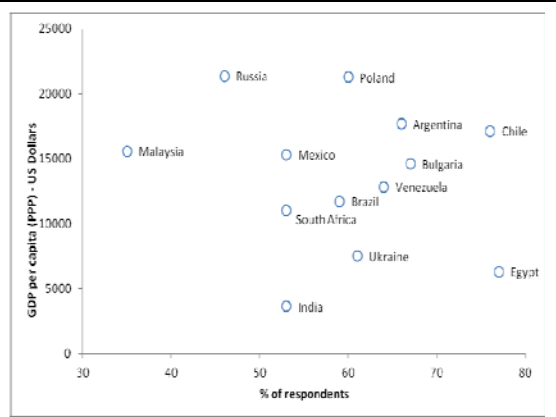
Inclusiveness: In parts of the developing world, economic growth co-exists with clientelist networks that crowd out inclusive institutions. Some members of the “old” middle and elite classes are more interested in preserving their positions than in paying taxes and sharing the benefits of growth. Moreover, the persistence of high inequality in emerging economies — together with the relatively small share of national income of their middle classes — suggests that the richest 5 per cent are likely to continue to preserve their current status.

Global development will be increasingly about distribution within countries rather than wealth transfers between rich and poor countries. The implication for policy is clear: reducing inequality is as important as promoting growth. An important step towards achieving this aim is to promote progressive taxation, inclusive health and education systems, and stable, formal jobs.

Political participation: The political role of the new middle classes in their countries will probably take many different forms. In some cases, the middle class will be a progressive driver of political change; in others it will try to preserve the status it has acquired and prevent further change. Regional differences are already evident. In India the future world’s largest middle class is growing in a country with a long tradition of mass political participation. In China, history’s most remarkable instance of poverty eradication, the middle class grows under the watchful eye of one-party rule. While governance is improving in many African countries and elections have become more frequent, it is not yet clear whether rising wealth is leading to genuine democratic change. As Figure 2 suggests, political values cannot simply be extrapolated from different levels of income.

We cannot expect that the growth of middle classes will lead automatically to democracy, but some sort of political change is likely and development policy needs to pay close attention. Democracy requires transparent and effective institutions, accountability of officials, and political checks and balances. While these should be encouraged, they take different forms in different national contexts. Development actors need to accept political transition as long as it is open, even if they do not agree with some aspects of the outcomes.

Figure 2: The complicated relationship between income and political values



Sources: Pew Research Center (2009); World Bank online database data

International cooperation: One of the big open questions for international cooperation is whether the new middle classes will be willing or able to pressure their governments to cooperate peacefully with others. Most current institutions for international cooperation were promoted by countries with large middle classes. Support for the idea of internationalism (or cooperation beyond borders) was crucial for this process. But the combination of rising incomes, differing domestic political systems and cultural diversity may change the nature of these international arrangements. We do not know if the middle classes in countries as diverse as Brazil, India and China will consider international coop-

eration to be good and necessary. In any case, and regardless of the type of political system, governments will not be able to ignore their opinions.

What does this mean for development policy? Rising middle classes may pressure their leaders to cooperate peacefully, benefiting global governance. However, peaceful cooperation may become more difficult and complex as more countries with large and assertive middle classes try to influence international processes. For example, the electoral victory of the transnational Muslim Brotherhood in Egypt raises the prospect of a different type of cooperation from the Western, liberal model. Although there are clear common interests in resolving global cooperation issues like climate change, trade, capital flows, biodiversity, energy and food security, there are numerous potential conflicts of interest over resources and global influence. The upcoming negotiations on a global development partnership to follow the Millennium Development Goals after 2015 will provide a test case for cooperation among countries with growing middle classes. A just and stable international order, under which the new middle classes can flourish, is unlikely to be any easier to achieve.

By no means the end of history

Unsustainable or “green”? Progressive or conservative? Inclusive or polarised? Cooperative or isolationist? What direction the new middle classes in developing countries will take is uncertain. But, even if history does not repeat, they will be a force to be reckoned with. Increasing our understanding of the new middle classes to prepare for what might arise is a good place to start.

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Dr. Mark Furness
Researcher
 Department
 “Bi- and Multilateral
 Development Policy”
 German Development Institute /
 Deutsches Institut für
 Entwicklungspolitik (DIE)



Dr Imme Scholz
Deputy Director
 German Development Institute /
 Deutsches Institut für
 Entwicklungspolitik (DIE)



Dr Alejandro Guarin
Researcher
 Affiliated to the Directorate
 German Development Institute /
 Deutsches Institut für
 Entwicklungspolitik (DIE)