



Number 25 · November 2013



RISING MIDDLE CLASSES IN INDIA, BRAZIL AND SOUTH AFRICA

What is happening and what are the implications?

Edited proceedings of a Round Table convened
by the Centre for Development and Enterprise

The Centre for Development and Enterprise is a leading South African development think tank, focussing on vital national development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals for addressing major social and economic challenges. It has a special interest in the role of business and markets in development.

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This report is based on number of background reports written for INCLUDE and a workshop held in São Paulo, and co-hosted by the Instituto Fernando Henrique Cardoso in October 2012.

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This document is available from CDE, and can be downloaded from www.cde.org.za.

Published in November 2013 by The Centre for Development and Enterprise
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ISBN: 978-1-920653-17-0

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EXECUTIVE SUMMARY

The rise of the middle class in emerging democracies is an important global issue. An expanding and large middle class is vital for inclusion and stability, especially in developing countries with many poor and excluded people. However, comparative research on this phenomenon from within developing countries has been rare. To address this gap, think tanks from India, Brazil and South Africa held a workshop late in 2012, hosted by the Instituto Fernando Henrique Cardoso (IFHC) in São Paulo, in partnership with the Centre for Development and Enterprise (CDE), Johannesburg, and the New Delhi-based Centre for Policy Research (CPR).

Middle Class Trends in Brazil

Studies of the Brazilian middle class largely employ a definition developed by the federal government's Secretariat for Strategic Affairs, which classifies people as middle class if they have the relatively low household income of between US\$161 and US\$564 per month. The growth of this 'new middle class' is one of Brazil's most impressive achievements. Between 2001 and 2011 the proportion of people that could be classified as middle class grew from 35 per cent to nearly 50 per cent. In 2011 Brazil's population was almost 197 million, so the middle class now consists of nearly 98 million people.

Other important trends identified at the workshop were:

- The middle class will make up 57 per cent of the population by 2022. However, growth of the class will slow as middle class people advance to the upper class.
- Black Brazilians account for 80 per cent of new entrants into the class. People from rural areas, from the relatively impoverished north-east, workers in the informal sector and domestic servants are a growing proportion of the middle class.
- Between 2001 and 2011 the household income of people classified as extremely poor grew by an average of 14 per cent per annum. Incomes for people living in households classified as upper class grew by only 2 per cent over the period.
- Brazil's falling fertility rate is now 1,9 - lower than that of France. Smaller families with multiple incomes make households better off, which allows them to rise into the middle class.

Key Insights about Brazilian Middle Classes

In contrast to commentators who claim that Brazil's successes in reducing poverty and inequality are the result of government income-transfer programmes, Brazilian economists have shown that this is far from the case. While the modest transfers have played some role in lifting people into higher income categories at the lower end of the spectrum, the impact of economic growth and access to employment has been far more important.

Inequality has fallen and the middle class has grown primarily because a period of solid – although not spectacular – economic growth generated income-earning opportunities that poor people with rising education levels could access. In the first decade of this century Brazil's economy grew, on average, at 3,6 per cent annually. As a result the number of unemployed fell and the productivity of many workers rose. Both processes allowed real incomes to rise and lifted almost 40 million people out of poverty.

Brazilian experts, including ex-president Cardoso, admit however that they have not been able to identify all the factors that contributed to Brazil's impressive successes in the 2000s. An important factor, clearly, was the ability to take advantage of the commodity boom, especially rising demand for commodity exports from China. Possible additional factors include accountable, relatively effective local government, high urbanisation (over 85 per cent) and employers' ability to work around complex labour market regulations.

An additional note of caution raised by Brazilian experts was the need to be careful when generalising about this 'middle class', especially in terms of its impact on politics. Diverse ranges and sources of income and a variety of identities stand in the way of this group constituting a coherent class in the strict sense. In addition, sociologist Bernardo Sorj pointed out that 'a person who receives a salary from the state will have different demands and expectations than somebody who receives a salary from a private entity'.

Despite these complexities, there was broad agreement that the rise of this 'new middle class' is an important change. Such a large proportion of people consuming more and developing aspirations will have profound consequences. It was noted, with some irony, that the ruling Workers Party has presided over a situation where almost all workers are now

classified as middle class. As a result, there is no longer an official working class in Brazil.

Middle Class Trends in India

The subcontinent is characterised by considerable regional variation. India has achieved significantly higher growth rates than Brazil and South Africa recently, but with a population of 1,2 billion it is much poorer than the other two. Per capita income is US\$3 627, compared to South Africa's US\$10 960 and Brazil's US\$11 640.

An innovative way of analysing the middle class has identified two categories, local and global, allowing analysts to assess the rate at which people are moving out of lower income quintiles, while also permitting an evaluation of the much smaller income group near the upper end who have standards of living and aspirations comparable with middle classes in richer countries.

The 'local middle class' consists of urban Indians earning between 75 and 150 per cent of the median income. In 2005 median annual household income was US\$652 and median per capita income US\$125. The local middle class makes up 40 per cent of the urban population and consists of about 150 million people. The 'global middle class' is defined as people in households that consume between US\$10 and US\$100 per person per day. About 12,5 per cent of the urban population fits into this category, or about

50 million people. Together the two classes comprise some 200 million people, just under a fifth of the population.

Additional points raised about these two middle classes were:

- Access to higher education is the key to becoming a member of the global middle class. People in this class are largely English-speaking and mainly upper caste. They are heavily concentrated in two states, Delhi and Maharashtra.
- The local middle class is more diverse and widely spread. It is split along language, ethnic and caste lines.
- Average household size for local middle class Indians is 4,3 compared to 3,6 for global middle class Indians.
- Members of the global middle class spend five times more than local middle class Indians on education and shelter.
- The proportion of the local middle class working in the informal sector is 70 per cent. For the global middle class the proportion is still very high, at 40 per cent.

Key Insights about Indian Middle Classes

Both middle classes have played a muted political role in recent times. The local middle class focuses on making a living and feels relatively disconnected from the political process. They are self-reliant but would greatly benefit from better government services. The global middle class, many of whom work in government, have opted for private services and therefore do not devote much energy into pressuring government for better service delivery.

In India, as elsewhere, the idea of the middle class is tied up with a universalising, inclusive vision that anyone who achieves a certain education and income can become part of this class. Seeing themselves in meritocratic terms helps middle class Indians justify their higher incomes. At the same time, issues of ethnicity and caste continue to divide Indians, even within the middle classes. These divisions can be exacerbated by affirmative action policies.

A positive element of the inclusiveness of society can be found in the ability of the poor to settle and ply their trades across Indian cities without too many restrictions. This avoids a contest between urban insiders and outsiders, which could explain why urban violence is much more muted than in countries like Brazil.

Middle Class Trends in South Africa

There are several definitions of 'middle class' in South Africa. For instance, economist Justin Visagie defines the 'literal middle' as households with monthly incomes between US\$190 and US\$570, which adds up to 4,2 million households and constitutes 30,9 per cent of the total population. 'Global middle class' households are defined as those with after-tax monthly incomes of between US\$700 and US\$5 000. There were 4,1 million such households in 2008, making up 29,9 per cent of the total.

Other approaches include:

- The South African Advertising Research Foundation, using Living Standards Measures (LSMs), finds that 23,5 per cent (about 12,2 million people) of South Africans were middle class in 2010.
- In 2006 some 42 per cent (19,9 million) of South Africans self-identified as middle class, according to the global World Values Survey.
- About 14 per cent, or 7,2 million, South Africans were middle class in 2012, according to the UCT Unilever Institute of Strategic Marketing.

Other points relating in particular to the black middle class from the Unilever study are:

- The black middle class more than doubled between 2004 and 2012, from 1,7 million to 4,2 million individuals.
- The average monthly income for a black middle class household in 2012 was R21 000, compared to R25 000 for a white middle class household.
- The annual spending power of the black middle class is R420 billion, compared to R320 billion for the white middle class.

Key Insights about South African Middle Classes

Important changes have taken place in the size and character of South Africa's middle class. However, by contrast with Brazil, the unemployed and the poor are not able to move up the income ladder into the middle class in large numbers. While benefiting from some transfers and public services, they lack access to good infrastructure, job opportunities, decent health care and especially good quality schooling. The dire state of the education system prevents capable children from poor households moving into middle class trades and professions.

Under apartheid in the 1980s, despite heavy constraints on upward mobility, employment growth promoted the black middle class. By contrast, the extremely high unemployment of the democratic era has been a major constraint. As a result, the principal vehicle for advancement has been access to good schools and universities and economic opportunities as well as affirmative action and black economic empowerment policies. As in India and in other countries with similar situations, such as Malaysia, affirmative action policies may have had the unintended consequence of fuelling racial or ethnic tensions. On the other hand, despite often complaining about affirmative action, the white middle class has been able to maintain and even advance its position due to a period of solid growth at a time when South Africa has faced a serious skills shortage.

Whites, coloureds, and Indians (the 'minority groups') have increasingly abandoned the ANC at the polls. Interestingly, the black (African) middle class is beginning slowly to do the same. In the words of a university-based pollster, Dave Everatt, "Post-apartheid voting certainties are fading rapidly...it is apparent that there is a complex and fraught relationship between the ruling party and the black middle class". In many respects the ANC has been a party of and for the middle class,

without admitting it and without the middle class entirely appreciating the fact. Thus, despite the ongoing importance of racial identities, a potential middle class alliance appears to be slowly emerging, largely driven by a set of shared grievances, at the heart of which is a growing perception of the ANC as increasingly inept, corrupt and nepotistic.

Comparative insights and concluding remarks

Global experts, especially those associated with the World Bank, the Washington-based Centre for Global Development and the Brookings Institution, are doing important work in defining and plotting the rise of a middle class in developing regions. They have focused largely on developing accurate, consistent measurements of middle class income trends across a range of countries, and they then tend to read off mainly economic and possible political consequences from these measurements.

What is striking about the conversation concerning 'the middle class' among experts and analysts who live in India, Brazil and South Africa is the concern to unpack and understand what is actually happening within their own countries. There is understandably far less interest in global comparability and incomes alone and much more in plotting the diversity within the broad 'middle class' category and analysing the varying implications of their rise.

Across the three countries, three major development challenges were identified in which middle classes were seen to play a pivotal role:

- Growing a large and dynamic internal consumer market;
- Reducing inequality and building a more stable social order; and
- Strengthening the state's accountability and capacity to deliver.

Middle Classes as Consumers

A major reason to promote middle class growth is its impact on local consumption. With higher incomes and a sense of being upwardly mobile, new middle classes develop wider aspirations, can more readily access credit, and become consumers of durables and services that they could not previously afford. These developments have important implications for economic growth.

In Brazil, the phenomenal growth of the new middle class appears to be associated with a greater propensity to buy durable goods. Brazil's economists are hopeful that this large group of new consumers holds a key to future economic

growth. The shift to internal consumption is particularly important at a time when the commodity boom which underpinned so much of Brazil's recent growth has dissipated. Brazil cannot count on China to the same extent, so needs to re-orient production towards a large and growing internal market.

The challenge is the extent to which this group has financed consumption via loans. There have been dramatic improvements in the accessibility and affordability of loans for the poor but, as economic conditions tighten, many at the bottom of the middle class income group are finding it harder to meet their debt obligations. Household debt, 20,2 per cent of disposable income in 2005, rose to 41,3 per cent in 2011. This is feeding a growing sense of discontent.

In India, despite relative poverty and the small proportion of the population who form part of the 'global middle class', scale and economic potential create massive opportunities for market expansion. If a recent McKinsey study is to be believed, and assuming that India can overcome current growth challenges, income levels will almost triple over the next two decades, and India will climb from the 12th-largest consumer market to the 5th-largest by 2025. The study claims that by 2025 over 23 million Indians — more than the current population of Australia — will number among its wealthiest citizens. Consequently, demand for luxury goods could reach US\$14,73 billion by 2015, from an estimated US\$8,21 billion in 2013.

By contrast, a mere 7,2 million South Africans earn between US\$1 493 and US\$5 333 a month. South Africa has a relatively small population (52 million), with a large proportion living in poverty. While the rising consumption habits of this burgeoning group have a noticeable and important impact on the economy, the internal market remains restricted and tiny by comparison with India and Brazil. This makes it imperative for South African companies to seek markets outside the country (especially in the rest of Africa), which will not only expand the size of operations, but lead to economies of scale. This, in turn, will serve to lower companies' cost structures and make them more competitive internationally.

Middle Classes and Social Stability

Expanding the number of middle income earners in developing countries should be regarded as an integral part of promoting inclusive growth and strengthening social stability. A society without a middle class is likely to create stark and glaring differences between rich and poor. A significant and

growing middle income group can serve as a buffer between rich and poor, as well as providing evidence to poorer citizens that social mobility is possible.

Brazil's middle class growth is part of a broader process that has brought down inequality and reduced poverty. In 2001 more than half the Brazilian population (53,7 per cent) was poor; by 2011 only 35,6 per cent remained below the poverty line. During the same time, inequality (as measured by the Gini coefficient) fell from 0.572 to 0.511, a significant change. Boosting the proportion of Brazilians in middle income categories, lifting large numbers of people out of poverty, and making the distribution of income more equal has demonstrated that all Brazilians can benefit from growth and modernisation. This has the potential to reduce feelings of exclusion, to eradicate clear distinctions between a group of economic winners and a group of losers, and to make Brazil a more stable country.

In South Africa the middle class is growing (between 2005 and 2010 by just under 4 per cent per annum) and becoming more racially balanced. More than 50 per cent of the middle class is black. This is a considerable achievement but it is not enough.

The major challenge is that poverty remains too high. Poverty has been reduced, but in 2011 nearly 38 per cent of the population lived below a poverty line of US\$172 per person, per month. People in middle class professions tend to be among the top income earners. Those who earn incomes in the middle of the income distribution are actually quite poor (earning at best US\$120 per person per month). The global middle class constitutes a small elite, and there is an insufficient buffer between them and the poor. This presents a challenge for social stability.

Middle Classes and Democracy

Middle classes are frequently associated with demands for more representative governments, greater rule of law and expanding freedoms. As a recent optimistic observer said of African middle classes:

'They are your enlightened voters, they will support policies, and not just vote in terms of an emotional affiliation. They are the drivers of democracy.'

Rising incomes are associated with growing support for democracy. Higher incomes enable people to move beyond survival and have the time to get involved in protests or movements for better services. A rising middle class will therefore get more involved in political and social life. How

governments manage this in democracies will be an important aspect of consolidation and stability.

However, we must be careful about assuming that all middle classes will automatically demand democratic reforms in the same way. To make sense of the ways in which middle classes are impacting on democracy in India, Brazil, and South Africa, it is important to understand how middle class people relate to the state. Do they rely on it for employment, economic support or services, and the enforcement of laws? Or have they become more self-reliant, relying predominantly on private provision of security, health, and education? The middle classes most likely to impact positively on the state are those based in the private sector with the independence and motivation to demand better public services and less corruption. Middle classes that are wholly dependent on the redistribution of state resources are unlikely to wage effective battles for greater democracy and accountability, higher economic growth, and value for money in state expenditure.

Nevertheless, in all three countries there are signs that middle classes are exerting political pressure to make the state more accountable and efficient. In Brazil, protests that broke out in June 2013 were, at least initially, dominated by middle class Brazilians demanding better public services, and less corruption. In India, middle classes have become increasingly mobilised in relation especially to corruption and sexual violence. In South Africa, while middle class politics is still somewhat muted, there are signs that 'greater voice' is being exercised. This can be seen in the opposition to the bungling of e-tolling, the growth of non-governmental anti-corruption organisations and the growing number of independent voices outside the ANC fold. The 2014 elections could deliver some interesting new trends as increasing numbers of black middle class voters seek alternatives to the ruling ANC.

Final thoughts

Middle classes in developing countries are difficult to pin down. The category has numerous dimensions and care must be taken before we assume economic and political outcomes merely from income levels. However, promoting middle class growth should be an important goal for emerging democracies. The experiences of both India and Brazil, while complex and not yet fully understood, point to the importance of economic growth and the creation of new economic opportunities as the best way to achieve this.

Middle class growth is therefore an important policy

objective with potentially a series of interlinked benefits: the reduction of poverty, a more inclusive and stable society, and growing pressure on the state to be more efficient and accountable. For this middle class growth to produce maximum benefits, however, it needs to emerge out of a dynamic development process in which opportunities are expanding and accessible to those who find themselves outside the middle class.

Generating such opportunities depends on a number of critical elements.

Firstly, economic growth must be a priority for governments. High growth is the only effective way to meet the challenges that developing countries confront. By substantially and consistently increasing the size of their economies, developing countries build up resources that they can invest in services, infrastructure, and education, while also expanding the range and quality of economic opportunities. Redistribution of income tends not to form the basis of middle class growth as it is not sustainable; has only limited benefits unless accompanied by the expansion of economic opportunities; and makes beneficiaries reliant on the state.

Secondly, it is vital to remove barriers to the expansion of opportunities for people stuck in poverty. For example, laws preventing the expansion of relatively low wage, unskilled jobs are inappropriate for countries with many unskilled people unemployed or outside the job market. The nature of economic growth (i.e. whether it is labour absorbing and driven by the private or the public sector) is therefore important. In these three developing countries, and many others, absorbing more and more people into the formal economy is vital. In addition, it is important to encourage people to move out of rural areas into effectively managed cities.

Thirdly, the state must ensure the supply of essential services, healthcare, and quality education to the poor. Good quality services strengthen the capabilities of poor people and their ability to pull themselves up into the middle class.

In laying the groundwork for effective, ongoing middle class growth, all three countries need to find ways of re-stimulating the growth of their economies in the current difficult global environment. To do this, governments need to implement reforms that will open up their economies to new sources of entrepreneurship and innovation.

The fight against poverty, achieving inclusive growth, the reduction of inequality, and building a stable society will all emerge from pursuing one goal: growing the middle class.

Prioritising this goal brings about a shift in how countries think about development challenges. Rather than just measuring poverty and then finding ways to increase incomes above a poverty line, a more dynamic focus on assessing progress towards middle class status needs a detailed understanding of what holds people back. Once these barriers are identified, remedies are needed to create an environment which generates accessible opportunities that poorer people are able and willing to pursue. Additional interventions should

ensure that all have access to the quality education and health services they need to make them, and their children, more productive and entrepreneurial, allowing them to progress up the income ladder into the middle class.

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INTRODUCTION

The middle class is a category that is more sociological than logical (Shashi Tharoor, Indian member of parliament and columnist).¹

This report summarises a Round Table on the rise of the middle class in India, Brazil, and South Africa, the third in a series of events hosted by the think tank consortium INCLUDE, which consists of prominent think tanks from three developing countries: India, Brazil, and South Africa. The consortium aims to provide an independent perspective on growth and development, casting greater light on how these three countries are seeking to achieve sustained and inclusive growth in dynamic, democratic contexts. (See box next page with information on the three think tanks).

The Round Table, in São Paulo, Brazil, in October 2012, brought together top Brazilians to present their research and insights. The Indian and South African delegations, which included senior academics, business leaders, and heads of leading think tanks, reacted to these findings and presented evidence on the rise of the middle class in their own countries.

The Brazilian middle class has grown spectacularly over the past 10 to 15 years. Academics and government agencies have made a substantial effort to map and understand these important changes. They are leading the field in the developing world. In India and South Africa interest in the middle class is on the rise, and globally there is a concern to better understand the rising democracies of emerging economies. The questions that interest those who focus on the anaemic global economy are: can these new middle class consumers provide a new impetus for growth; and to what extent will they provide stability and support for democracy in the developing world?

These are important questions within the three countries, but to understand clearly the many-faceted relationship between the middle class and the promotion of inclusive growth leads to a number of in-depth questions:

- How should we define the middle class in a way useful for the realities and challenges developing countries confront?
- What kinds of middle classes are emerging in India, Brazil, and South Africa? Do they depend on state jobs, tenders, patronage, and subsidies or are they independent professionals, managers, and entrepreneurs?
- Do members of the middle class approve of state capitalism or prefer more market-oriented approaches to development?
- How rapidly is the middle class really growing and to what can this growth be attributed? Is it the result of economic growth, and market forces in the economy, or redistribution and other government policies?
- Is the middle class starting to organise and find its voice? What is its political role? Are middle class members loyal to a particular party, perhaps because of historical reasons? Or are they more likely to vote for a party that best represents their new interests? Are they inclined to support democracy?
- How do the middle classes in the three countries perceive themselves and are they self-conscious about their status and roles?

Answers to some of these questions emerged relatively clearly, while others require further research and reflection.

A society without a middle class is likely to be highly unequal, consisting of the rich, little in between, and then the poor and the destitute

The aim of the workshop was to start a conversation about middle classes in emerging democracies. By learning from India, Brazil, and South Africa we can get a better sense of which processes and policies have most effectively promoted middle class growth, the most sustainable ways to lift people out of poverty and into the middle class, and under what circumstances middle classes are most likely to promote democracy and inclusive growth.

OPENING REMARKS

Ann Bernstein

Executive Director, Centre for Development and Enterprise, South Africa

The middle class is vital for inclusiveness. A society without a middle class is likely to be highly unequal, consisting of the rich, little in between, and then the poor and the destitute. Making sure that a large proportion of the population earns an income that places them between the very rich and the very poor will make societies more prosperous, more equal and more stable. Growing the middle class should be regarded as a workable and sustainable way to reduce poverty and income inequality across the globe.

Within the next 20 to 30 years it is estimated that a world that has been predominantly poor will be mostly middle class. Many people have great expectations about this emerging income group. Some believe that the middle class will become the dominant force in establishing and consolidating democracy, and protect and strengthen market-based economic systems. The World Bank and others also believe that the emerging middle class in developing countries represents a massive source of new consumption, which could be the engine of growth for the ailing global economy.

How should the middle class be defined? For many its essential characteristic is a reasonable amount of discretionary income – perhaps a third, after spending on food and shelter. Financing such consumption requires a steady job, either in the formal or informal sector. Justin Lin, the first Chinese chief economist at the World Bank, said that he believed being part of the middle class involved aspiring for something better and having the means to pursue it.² A number of commentators assume that along with these economic criteria comes a new set of attitudes that reflect the change in status that leaving poverty implies. These values or approaches include a work ethic, ambition to get ahead, and a hunger for education.

It is estimated that a world that has been predominantly poor will be mostly middle class

INDIA, BRAZIL, SOUTH AFRICA: THREE PROMINENT THINK TANKS

India: The Centre for Policy Research (CPR) is an autonomous, non-profit, non-partisan research organisation and a leader in Indian public policy research. CPR's major strategic objectives are to investigate policy issues facing the Indian polity, economy, and society; build a comprehensive body of policy-relevant knowledge; and provide policy alternatives. To achieve these goals, CPR works in close co-operation with policymakers, academic policy researchers and the media. It also manages several special-interest research initiatives. One is the Accountability Initiative which tracks and provides reliable and accessible information about the implementation of service delivery programmes. It also seeks to inform the accountability debate, thereby strengthening accountable governance and citizens' engagement in India's governance processes.

Brazil: The Instituto Fernando Henrique Cardoso (iFHC) was founded in May 2004 by former president Fernando Henrique Cardoso. Bringing together politicians, intellectuals, civil society and young people, it aims to produce and disseminate knowledge about the challenges of development and democracy. iFHC formulates policy proposals and encourages discussion and debate between intellectuals and policymaking bodies. The research focus is on geopolitical transformations, media and power and technological change, the legal framework and political changes, threats to democracy, and uses and abuses of civil society. The Institute does not limit its focus to economic issues, but is more concerned with political and socio-cultural dynamics. It receives public and private funds, and has been involved in projects in co-operation with the Federal Government of Brazil.

South Africa: The Centre for Development and Enterprise (CDE) is an independent policy research and advocacy organisation, widely recognised as 'South Africa's most respected policy centre for social and economic development' (Financial Times). CDE undertakes research on key development issues and their relationship with economic growth and democratic consolidation. With core funding from South African companies, CDE has a special focus on the role of business and markets in development. Comprehensive assessment of South African realities and international experience enables CDE to formulate practical policy proposals that outline the ways in which middle-income developing countries can tackle social and economic challenges. With more than 17 years experience in sound methodological research and innovative policy analysis, CDE has rapidly gained recognition as an authoritative voice in policy debates, has a remarkable ability to capture media attention and is read and heard at the highest levels of government, as well as internationally.

CDE 2013

Being part of the middle class involved aspiring for something better and having the means to pursue it

Developing countries can be seen as having two middle classes. The first is the old or traditional middle class, which by any standard across the globe could be defined as relatively affluent. It was once said that this group typically earns an income somewhere between that of an average Italian and an average Brazilian, a perspective probably outdated as a result of both countries' shifting fortunes.

This global class also tends to have a cosmopolitan orientation and more in common with other global members of their class than with the poor of their own country. The second, more numerous, class consists of people who are middle class by the standards of the developing world and not of rich industrialised countries. This group is growing very fast and will soon be a majority of the developing world's population.

To be more technical or precise about defining the middle class one can pursue either a relative or an absolute approach. The relative definition is achieved by taking the income distribution of a given country and then defining the middle range as the middle class. This could, for example, be the group between the top 20 and the bottom 20 per cent of income earners. There will be much variety between countries in terms of this definition. The second approach, often favoured by those who sit in the capitals of the developed

world and have to generalise about the planet, is to define the middle class in terms of a level of income. A popular measure is that the middle class are households which have a daily expenditure of between US\$10-US\$100 per person. If one had to use that definition there are 32 million middle-class people in the whole of sub-Saharan Africa, which is rather different from the vast numbers some consulting firms have recently proposed.³

The debate about the rising middle classes of the developing world has been dominated by economists, who tend to see the issue in terms of incomes and consumption. Historical, sociological and political perspectives have been missing. In terms of all the vital and interesting questions – the nature and definition of what exactly is happening, self-perception, causes of growth, role in politics, stability, economic growth – the debate about the size, nature and consequences of the rise of the middle class in developing countries could be considerably enhanced by thinking about the issues in a more comprehensive way.

This workshop will try to examine many of these issues in each country. By bringing together the trends, the causes and the political effects of middle classes in India, Brazil, and South Africa this, report sheds new light on how these countries are developing and the impact they may have on the global environment.

We start with the contributions of seven Brazilian commentators, led by former president Fernando Henrique Cardoso, on the rise and political impact of the new Brazilian middle class. This topic has been the subject of in-depth investigation in Brazil, a process that the federal government has supported directly.

People on the margins
have become part of
Brazilian politics and
central to the economy.
They make up the new
middle class

MIDDLE CLASSES IN BRAZIL

Fernando Henrique Cardoso

Former President of the Federal Republic of Brazil

Society today is very different from the one that existed when I began my career as a sociologist. Society used to be closed and rigid, and many millions of Brazilians existed on its margins. They hardly participated in the political process, they were poor, and they were neglected by government. This lack of inclusiveness created strong social tensions. The last decades have witnessed a great transformation. People on the margins have become part of Brazilian politics and central to the economy. They make up the new middle class.

This is not a middle class in traditional terms. The old middle class largely consisted of state employees and liberal professionals. They were well educated, and education was the key to their status. The new middle class is made up of people from many social backgrounds, who have accessed various forms of education, social networks, and clubs. They are moving into the middle class by dint of their higher incomes and expanding propensity to consume.

Why did this tremendous change take place? The restoration of democracy was the first step. In the 1970s Brazil had an average economic growth rate of 7 per cent, but the broad population did not really benefit. The government largely ignored the poor.

The Constitution of 1988 changed that by entrenching rights, such as free education for all, health care, land reform, and so on. When I came into government in 1982, some 25

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per cent of black Brazilians were not in school. Nowadays nearly 100 per cent of Brazilians are in the education system. This happened in a short time, through the extension of basic schooling.

Cash transfers have also played a role, and have a long history in Latin America. I started the process of making it more organised, and linking it to education. President Lula expanded the various programmes. There have also been regular increases in the minimum wage since 1994, which has probably more than doubled in real terms. These social programmes linked up with improvements in education, the rapid expansion of the labour market, the formalisation of contracts, and the extension of credit. All these factors working together, as well as additional factors that we do not yet fully understand, explain Brazil's success.

This is the situation now. The new middle class represents a shift to high levels of mobility and a more egalitarian society.

Andre Portela de Souza

Professor, Getúlio Vargas Foundation

The growth of the middle class is associated with the phenomenal reduction in poverty and inequality in the first decade of the 21st century. As large numbers of people moved out of poverty, they moved into middle class income categories. And, as the middle income group became a large component of Brazil's income distribution, so inequality fell.

The Secretary of Strategic Affairs has created a classification system in which households are classified into low, middle, and high income groups. These are defined as follows:

Category	Per capita household income, in 2011 Brazilian reais (R\$)	Overall income category
Extremely poor	Up to R\$91 (US\$45)	Low income
Poor	R\$91(US\$45) - R\$182 (US\$90)	
Vulnerable	R\$182(US\$90) - R\$327 (US\$161)	
Lower-middle class	R\$327 (US\$161)- R\$496 (US\$244)	Middle income
Middle-middle class	R\$496 (US\$244)- R\$720 (US\$355)	
Upper-middle class	R\$720(US\$355) - R\$1 145 (US\$564)	
High-income/upper class	R\$1 145 (US\$564) and higher	High income

Source: Presentation by Professor Andre Portela de Souza, The Rising Middle Class in Brazil, 9 October 2012

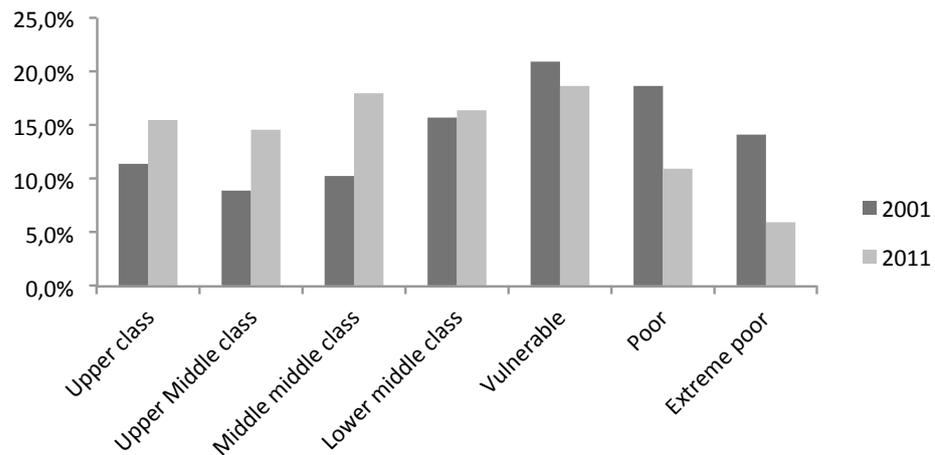
CDE 2013

The middle class is therefore defined as those with household incomes of between R\$327 and R\$1 145 per month (between US\$161 and US\$564).

The positive trends in income distribution can be seen in the diagram below. Between 2001 and 2011, a growing proportion of the population became part of the middle and upper classes, while the vulnerable, poor, and extremely poor shrank in relative terms.

The new middle class represents a shift to high levels of mobility and a more egalitarian society

RISING MIDDLE CLASSES IN INDIA, BRAZIL AND SOUTH AFRICA



Source: Presentation by Professor Andre Portela de Souza, The Rising Middle Class in Brazil, 9 October 2012, derived from data from Pesquisa Nacional por Amostragem de Domicílios (National Research on Households) from the Brazilian statistical agency, the Brazilian Institute for Geography and Statistics (IBGE).

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Economic growth has been the primary cause of increases in income and social mobility in Brazil

The declines for the extremely poor have been particularly dramatic. The proportion of extremely poor fell from 14,1 per cent in 2001 to 5,9 per cent in 2011. The overall proportion of people classified as poor in 2001 was 53,7 per cent. This fell to 35,6 per cent in 2011. Over the same period the proportion that could be classified as middle class grew from 35 per cent to nearly half the total (48,9 per cent). The population is approximately 200 million, so this is equivalent to 40 million people moving up into the middle class.

The demographics of the middle class have changed dramatically. In 1992 the middle class was predominantly white, at 68 per cent. This fell to 64 per cent in 2001 and 51 per cent in 2011. There have also been interesting changes in the middle class with regard to education. In 1992 only 19 per cent had between 9 and 11 years of schooling. This grew to 24 per cent in 2001, and 31 per cent in 2011.

In 1992, only 25 per cent of middle class Brazilians had a telephone (landline or mobile). This jumped to 71 per cent in 2001, and in 2011 9 out of 10 people in the middle class had a landline or mobile telephone.⁴ Between 1992 and 2011 the proportion of people who had a refrigerator went from 87 per cent to 97 per cent. Home ownership figures stayed fairly stable, going from 70 per cent in 1992 to 75 per cent in 2011.

Why has there been this explosion in the middle class?

Statistically, we can isolate two broad processes. The first is economic growth, which makes more income available within the economy and allows people to move out of poverty into the middle class. The second is the redistribution of income, which means that some existing income is made available to poorer groups, allowing them to change their income status.

It turns out that 43 per cent of the additional income that lifted Brazilians out of the extremely poor classification was generated by economic growth. The redistribution of income which accounts for the other 57 per cent was clearly important. However, without economic growth, Brazil's poverty reduction achievements would have been significantly less impressive.

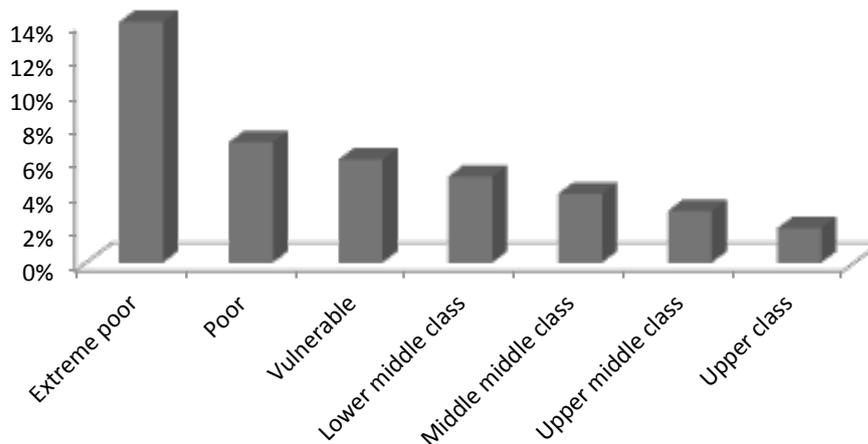
When we examine households in higher income brackets, the importance of economic growth quickly rises. Seventy six per cent of the income that lifted Brazilians into the upper middle and higher income groups (i.e. the households that moved out of the categories below R\$720 per month) can be attributed to economic growth. We can conclude that

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economic growth has been the primary cause of increases in income and social mobility in Brazil.

The average annual per capita household income growth rate between 2001 and 2011 was highest for households classified as 'extremely poor.' Rates of income growth were lower the higher the income of the household. For example, households classified as extremely poor saw their incomes increase by a spectacular 14 per cent per annum on average, while upper-class households achieved only 2 per cent. Such divergent growth rates have had dramatic impacts on both poverty and inequality.

Annual average growth rates of household incomes, 2001 – 2011



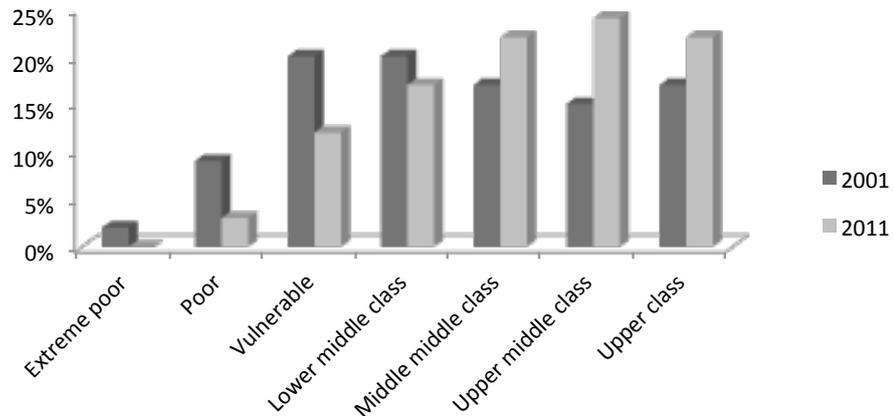
Source: Presentation by Professor Andre Portela de Souza, *The Rising Middle Class in Brazil*, 9 October 2012, derived from data from Pesquisa Nacional por Amostra de Domicílios (National Research on Households) from the Brazilian statistical agency, the Brazilian Institute for Geography and Statistics (IBGE).

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The growth of the middle class can also largely be explained by the increase in jobs in the formal private sector. Between 1995 and 2011 the proportion of people employed in the formal private sector increased from about 30 per cent to just under 40 per cent, while the proportion employed in the informal sector went from about 35 per cent to 25 per cent. The proportions of self-employed people and people employed as public servants stayed relatively stable, at about 30 per cent and 5 per cent respectively. A large component of middle class growth can thus be explained by changes in occupational categories.

If the Brazilian middle class was its own country it would be the twelfth most populous in the world

Distribution of Formal Private Workers across income classes



Source: Presentation by Professor Andre Portela de Souza, The Rising Middle Class in Brazil, 9 October 2012, derived from data from Pesquisa Nacional por Amostra de Domicílios (National Research on Households) from the Brazilian statistical agency, the Brazilian Institute for Geography and Statistics (IBGE).

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The increase in the middle class has much to do with economic growth

The proportion of formal workers with more than ten years of schooling also increased relatively significantly between 2001 and 2011. In 2001 the proportion of formal workers with 10 years of schooling was 30 per cent, rising to 40 per cent in 2011. The proportion of formal workers with 15 years of schooling or more in 2001 was also 30 per cent, and this had risen to 35 per cent in 2011.

We can thus deduce that the increase in the middle class has much to do with economic growth, while the increase in the productivity of workers who moved into formal or more skill intensive employment must be linked to the increases in education depicted above.

Ricardo Paes de Barros

Executive Secretary, Secretariat for Strategic Affairs, Presidency of the Republic of Brazil

During the past 25 years Brazil focussed on reducing poverty and, as a result, gathered a great deal of knowledge about poor Brazilians. The new middle class has emerged so rapidly that few studies on this new phenomenon exist. To remedy this, the government has mandated a group of academics to define the middle class in Brazil – allowing us to document their rise and visualise the tremendous social changes that have taken place.

The first problem is to identify criteria that result in identifiable groups with a degree of internal consistency while also being distinct from one another. This is not as easy as it sounds. For example, if we use the ways in which people generate income as the basis, we could say that richer Brazilians depend on rents and income from assets; poor Brazilians depend on government transfers; while the middle class relies on labour income. However, in Brazil most government transfers apart from Bolsa Família are equivalent to the minimum wage. This means that people who receive government transfers are in the middle of the income distribution. Linking classes to income sources is thus problematic.

A better formula may be that used by the World Bank, in which people are classed according to their expectations of income in the next five years. Three groups can be developed: those who have a high probability of staying or becoming poor would be

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considered lower class; those with zero chance of becoming impoverished are considered upper class; while those with only a small chance of staying or becoming poor are considered middle class. This results in a middle class with a per capita income of between R\$291 and R\$1 000 per month (between US\$143 to US\$492),⁵ a group that makes up 50 per cent of the Brazilian population. There was some controversy in Brazil regarding this definition, with people saying that those earning R\$300 per month should be considered poor, rather than middle class. However, if we had to apply this definition globally 54 per cent of the world's population would not be middle class, and only 18 per cent would be considered upper class. The World Bank approach therefore seems relatively well grounded.

A phenomenon sometimes ignored is the extent to which people exit the middle class at the top end. The upper class grew from 13 per cent of the population in 2002 to 20 per cent in 2012. This means that, holding everything else constant, there was a drop of 6 percentage points in the middle class proportion of the population. With 21 per cent of the population moving up from the lower class into middle class, the total increase was therefore about 15 percentage points, once we subtract those who exited into the upper class.

If the Brazilian middle class was its own country it would be the twelfth most populous in the world, with slightly fewer people than Mexico. Part of the increase can be explained by population growth, but the majority is due to new entrants from lower income groups. Of the 100 million middle class Brazilians, nearly 40 per cent are relatively new entrants.

Looking at the projected 10-year growth of the middle class, there are a number of interesting phenomena. It is necessary to use a relative boundary, as with fixed boundaries the middle class will effectively shrink, as more people move into higher income categories.

We estimate that the Brazilian middle class will expand to 57 per cent of the population in 2022, from 53 per cent in 2012. Some 10 per cent will leave the middle class and become upper class, while 14 per cent will leave the lower class for the middle class. Entry into the middle class will be slower but escape will be quicker.

The middle class is now very diverse. For example, 80 per cent of new entrants are black. People from rural areas, from the relatively impoverished north-east region of Brazil, those that work in the informal sector, and domestic servants all make up a larger proportion of the middle class than ever before.

The emergence of this new middle class is due to new and more productive forms of work, rather than government transfers. Two-thirds of the wage gap between the middle class and the lower classes is due to labour productivity. People became members of the middle class because they could work better, possibly because they found better jobs and became more educated. In addition, three-quarters of the gap in income between the middle class and the upper class is related to labour income. The key to moving people out of the lower class into the middle and upper classes is to increase productivity further. This can be done by making better jobs available and by further increasing workers' education levels.

The emergence of this new middle class is due to new and more productive forms of work, rather than government transfers

Marcos Lisboa

Vice-President, Itaú Unibanco

Another way to assess the impact of redistributive policies on the rise of the middle class, as well as the related fall in inequality, is to analyse the impact of government policies on the Gini coefficient, which measures the degree of inequality in a country, with 0 denoting perfect equality and 1 the most extreme inequality.

To understand the extent to which government policies influence this indicator we first looked at income distribution before transfers from the state. In developed countries such as the United Kingdom, the Netherlands, France, and Germany, before transfers like pensions, social grants, and government services are disbursed, Gini is close to 0,5. Taking state transfers into account, Gini falls to 0,35. The state has thus managed to reduce inequality significantly by taxing working people and transferring this money to the poorest and most in need. Even the provision of good public schools is a function of this.

In Brazil, the same exercise leads to very different results. The Gini coefficient starts at 0,59 without state transfers. After state transfers, it falls, but only to about 0,55.

The reason transfers have such a small effect is that the middle class and even richer people receive substantial benefits from the state, notably generous public sector pensions. To retire on full pay most civil servants need only contribute for 15 years and keep going until 65 for men and 60 for women. In addition, after 35 years paying in, a man of any age can retire on a smaller, though still generous, pension. A woman must pay in for just 30 years.⁶

Another state transfer that benefits the rich more than the poor is public universities. They are free and generally very good, but have high entrance requirements. It is mostly those who attended good primary and high schools – mainly the middle and upper classes – who are able to attend these institutions. The first step in combating inequality should be to focus resources on alleviating extreme poverty. This focus started with President Cardoso and continued under President Lula. The government transfers that emerged are, however, not very large. For example, in the Bolsa Família programme benefits vary from R\$29 to R\$218, per month or US\$16 to US\$118 at Purchasing Power Parity conversion rates. Total benefits amount to between slightly more than 0,4 per cent of Brazil's GDP and slightly less than 0,7 per cent.

This can be important to very poor families and helps get children into education, but Bolsa Família has only a small impact on reducing inequality. The reduction in inequality must therefore be due to how Brazilians have taken advantage of the growth opportunities manifest in the previous decade. Furthermore, the sustained reform programme that began in the early 1990s was why Brazilians were able to exploit these growth opportunities. Critical reforms included the Real Plan, which stabilised the currency, and the Law of Fiscal Responsibility, which changed the way monetary and fiscal policy is conducted. Through these interventions, decade-old problems like state debt and rampant inflation were solved.

Along with these macro-reforms, a number of micro-reforms were implemented that slowly changed the country. These partly emerged out of the Constitution of 1988, which decentralised a number of functions to municipal level. These included fiscal responsibility as well as education and health. Other economic reforms made it easier to import capital goods and encouraged competition. The importation of capital goods had a beneficial effect on productivity, as workers began to use better tools and technology. Other reforms enacted in the late 1990s and the early part of the last decade enabled the

The new Brazilian middle class is primarily defined by consumption habits

What is happening and what are the implications?

private sector to do more business, families to borrow more money at lower interest rates, and markets to deepen.

The tax reforms of 2002 and 2003 were also important. Previously tax was paid on nearly every step of the production process. This made products with a long manufacturing line expensive and goods with shorter production lines cheaper. It also meant that many manufacturers preferred to remain in the informal sector where they could avoid these taxes. The policy also encouraged companies to stay small. If they became too big they would attract the attention of regulators and officials.

The new tax laws removed these perverse incentives by taxing only added value. Incentives to remain in the informal sector were reduced and a number of sectors paid taxes only at the end of the productivity chain. This also created incentives for capital markets to grow, which lowered the cost of borrowing. Companies thus grew because they could access capital, which simultaneously deepened financial markets and increased productivity.

Another issue that prevented people from taking advantage of opportunities was the high cost of personal loans. People used to pay up to 80 per cent a month when they borrowed for a refrigerator. Default rates were high. In 2003 this changed. If somebody had to repay a loan they did not have to go into the bank anymore, banks would take money directly off the creditor's wages. This substantially lowered risk and collection costs, which allowed interest rates to fall from 80 to 3 per cent. This promoted consumption, which led to additional production, investment and jobs. In this improving, expanding economic environment people see benefits in becoming part of formal capital, labour, and credit markets, which, as we have seen, leads to further growth and productivity improvements.

These improvements tend particularly to benefit low-income groups. In this environment a natural reduction in inequality and rapid growth of the middle class were inevitable.

Haroldo Torres

Researcher, CEBRAP

A neglected cause of the rising middle class is the extent to which women have entered the labour market. Many families enter the middle class because a woman starts working and the extra income lifts the family into the middle class. At the same time, women are having fewer children, which reduces the number of dependents that family incomes have to support and raises per capita income. The growth in the middle class is due not merely to rising incomes, but also demographic shifts that lead to higher incomes within new family structures.

It is clear that the Gini coefficient for individuals is going down much more slowly than it is for families. Brazil's fertility rate is now 1.9 - which is lower than that of France. Smaller families with multiple incomes lead to increased consumption and prosperity.

Many families enter the middle class because a woman starts working and the extra income lifts the family into the middle class

Bolivar Lamounier

Director and co-founder of the Augurium Consultancy (Previously Professor, Catholic University of São Paulo)

While the idea that the middle class is vital for political stability and democracy dates back to Aristotle, many over the years have disagreed. For example, sociologists in 20th-century Latin America argued that the middle class – which they defined as urban, educated people – would, by their very presence, destabilise a system run by oligarchical and conservative elites. In this case, destabilisation should probably be seen as a positive force, though.

Another argument is that in Europe during the 20th century inter-war period, small business owners, the ‘petit bourgeoisie,’ were sandwiched between big business and labour unions. This led them to feel insecure, which, coupled with the worldwide depression, led them to support Fascism. Here the middle class, or at least elements of it, had a decidedly negative impact.

A similar but broader argument emphasises the general insecurity that members of the lower middle class experience. They fear falling back down into the poorer classes. As a result they have a tendency to undermine progress and democracy as they support social movements that promise to use undemocratic means to protect people’s status and reduce their insecurity.

What is the relevance of these ideas for the current Brazilian situation?

The petit bourgeoisie is very small in Brazil. Small business owners make up a tiny proportion of the new middle class. Middle class growth is driven primarily by expanding labour markets and formalisation. The emerging middle class is a new social phenomenon: a middle class heavily dominated by workers. This throws doubt on the relevance of past middle class politics for understanding the current situation.

It also raises questions about the definition of the middle class that Brazilians apply.

The term ‘class’ was originally used to depict a group of people who held a common position within the economic structure and had developed a conscious sense of themselves, as a class. This definition does not apply to the Brazilians who have been identified as a new middle class. People who make up this group are too diverse in terms of sources of income, range of incomes, and self-perception to constitute a coherent class in the strict sense.

The way Brazilians think about the middle class has changed dramatically. In the 1950s, the middle class was thought of as a relatively small group, isolated from the large majority of low income earners. More than anything else, being in the middle class was regarded as a matter of status. If one wanted to move out of the lower and into the middle class one had pull off the difficult feat of changing one’s standing in society.

Further, when people used to talk about the middle class rising, they understood this to have clearly defined and easy to understand political effects. People were usually referring to specific occupational groups – military officers, doctors, lawyers – asserting their political interests. A middle class defined in terms of status or occupation is a very different phenomenon to one defined in terms of consumption.

The new Brazilian middle class is primarily defined by consumption habits. The expansion of credit allows a growing number of people to buy refrigerators, televisions, cars, and other goods, which allows them to reach middle class consumption standards. So, when Brazilians now talk about 50 per cent of the population rising into the middle class, this means that people are consuming more and developing the ambitions that

The emerging middle class is a new social phenomenon: a middle class heavily dominated by workers

What is happening and what are the implications?

their higher incomes allow them to entertain. The political effects of these changes are very difficult to gauge.

In addition, in this age of television, voting patterns have become more difficult to predict. Voters' behaviour can now be placed into a number of categories, determined by how people receive and interpret information about the candidates and parties, but it is often difficult to link these voting categories to class positions.

For example, in the previous election voters were evenly split - regardless of class - on whether privatisation was desirable and whether private enterprise could do as good a job of running things as the government. However, when it came to deciding whether people were getting a good deal for the taxes they paid, people with higher incomes were far more critical than those with lower incomes. The variable behind this is information. People in the middle and lower classes were progressively less critical of government services and, while services may have improved slightly, I believe this must partly be explained by their lack of access to information. There were also interesting patterns with regard to questions about public universities. Nearly all respondents agreed these should provide free tuition, but when asked whether those who could afford it should pay, the results were interesting. Just over half of respondents, and similar proportions of the various classes and income groups, agreed that those who could afford to should pay.

Certain values and beliefs clearly cut across social classes. Views on punishment relating to crime are no longer related to class, which is different from the inter-war years in 20th-century Europe, when middle class citizens were mostly in favour of highly punitive forms of punishment. The fluidity of class categories makes it unlikely that recent entrants into the middle class will share the ideas and values of more established members of this class. Unlike Europe, Brazil does not have rigid and stable class lines. This makes the political orientation and impact of the growing middle class difficult to predict.

We need more information to get a better sense of how members of the middle class understand their own situation, and whether they are developing feelings of solidarity with other members of the class. The concept of class implies that there are 'lines' dividing people, with some groups and people being below or above this line. This is hard to identify in reality, especially when one is talking about a process of rapid social change.

What the rise of the middle class represents more than anything else is immense numbers of people, previously excluded from the basics of modern consumption, becoming suddenly included. What has caused this immense change? A combination of a stable macro-economic environment, a growing economy, an expanding labour market, and social policies have helped some of the poorest Brazilians take advantage of new economic opportunities.

One of the most striking findings from a survey that I undertook in 2010 with the late Amaury de Souza was that, despite the bite of the recession, people exhibited a remarkable determination to keep on improving and to move up the social ladder. Brazilians appear to be more ambitious than ever before. In addition, while the education levels of many of those on the lowest rungs of the middle class were often extremely low, they all expressed a strong determination to give their children a better education.

Recent elections have been decided by the broad appeal of ideas rather than narrow class interests. For example, President Cardoso was elected in the first round of the vote in 1994 because of his strong focus on inflation. This appealed to Brazilians across income categories and Cardoso won in almost every state.

In São Paulo a political separation between the more 'popular' and more 'elite' parties has long existed. There is a sense that certain groups feel bound to one or the other

Unlike Europe, Brazil does not have rigid and stable class lines

party, but, although research to back this up must still be done, I feel that the situation is changing. People are becoming more conscious of the value of money, of the cost of goods, how much tax they pay, and what they get in return. I think a process of politicisation is under way, and that as people move up the social ladder they are increasingly ready to participate in the political process to defend and promote their economic interests.

The current politics of Brazil is in many ways unique, at least for Latin America. The ruling Workers' Party has populist dimensions, but, despite its name, can be distinguished from other populist movements – such as Argentina's Peronists – by the fact that it is much more focussed on the excluded poor than on the organised working class. Lula was a worker from the poverty stricken north-east region. The policy programme he put in place has been, it would appear from its results, more determined by his geographical than his class origins.

Bernardo Sorj

Director of the Edelstein Centre for Social Research and of the Plataforma Democrática Project

The income categories we use in Brazil to define the middle class produce some perverse results. More than a third of the people classified as middle class do not have adequate sanitation or garbage collection. More than half do not send their children to private schools or have health insurance, which have traditionally been symbols of middle class status.

Even a small proportion of those who fall into what is defined as the upper class have no access to sewage services. If a person lives in a neighbourhood that has no refuse collection, no sewage services, and no running water, but is defined as upper class, one suspects that income classifications and common sense are diverging dramatically. This suggests that we need to revise concepts that prevent us from grasping what is happening in social life.

Before we settle on classifying the middle class only on the basis of income we should get a better understanding of how people live and define themselves, and what their demands and expectations are. People who have no sewage or refuse collection will probably have specific demands, regardless of how they are defined by academics.

History has shown that, contrary to views of the world that dominated the 20th century, a homogeneous bourgeoisie and homogeneous working class do not exist. Economic groups are much more fragmented than was believed. We should thus be careful not to allow current preconceptions to cloud our analysis and judgment.

We cannot deny that the 'new middle class' reflects changes in the social order. Society has become more egalitarian, at least in terms of expectations. People do not want to feel excluded; they want to participate and be consumers. Previously patterns of consumption for the working, middle and upper classes were very different. Now they are broadly similar. We must bear in mind, however, that while there is a growing homogeneity with regard to consumption, there are many differences between people within the broad concept of middle classes. To accommodate the various types of access to public services more advanced typologies need to be developed.

Understanding the impact of different levels of education is also fundamental. In research I undertook within a favela I found that people with relatively high levels of education used the internet in the same way as people who could be classified as upper

More than a third of the people classified as middle class do not have adequate sanitation or garbage collection

class. In relation to the capacity to absorb and use information, education is more important than income – education should be part of a typology of social stratification.

Within the middle class there is also an important difference between those working in the public and private sectors. A person who receives a salary from the state will have different demands and expectations to somebody who receives a salary from a private entity. The former have employment stability and tend to support a larger state, while the latter are more sensitive to taxes and the job market. It must be remembered that in Latin America in general and in Brazil in particular the public sector employs 20 to 25 per cent of the middle class.

Twenty years ago we did not understand why workers in the US chose to define themselves as middle class, but in Brazil this is now becoming normal. The Brazilian Workers Party, the largest party in the governing coalition, now presents itself as the party of the middle classes. This can be seen in the emphasis that the Department of Strategic Affairs places on classifying the middle classes. According to the new classifications, the working class has effectively disappeared. People are now either poor or part of the middle class. Conceptual discussions cannot be dissociated from political debates and the ideals of society. To be part of the public discussion and have a partisan position is fair, but social analysts must distinguish between political agendas and solid research.

MIDDLE CLASSES IN INDIA

The Indian discussion kicked off with a presentation by Partha Mukhopadhyay and Patrick Heller on two ways to define the middle class, providing support to the notion that it is helpful to distinguish between local and global middle classes in developing countries. This was followed by a discussion by Pratap Bhanu Mehta on the political roles that these two middle classes play. In a number of instances the Indian discussion reacted to and was inspired by the extensive work that has been undertaken in Brazil.

Partha Mukhopadhyay

Senior Research Fellow, Centre for Policy Research, India;

Patrick Heller

Professor of International Studies, Brown University

In India there are essentially two middle classes. The first can be called the local middle class; the other the global middle class. The 'local' constitutes the middle income group within India. People earning between 75 and 150 per cent of the median Indian income make up this class. The classification is limited to urban Indians. About 380 million Indians live in urban areas. People who earn between 75 and 150 per cent of the median income constitute about 40 per cent of the population. So, the urban local middle class consists of about 150 million people, slightly less than the entire urban population of Brazil.

The 'global' class is defined as those who live in households that consume between US\$10 and US\$100 per person per day. About 12,5 per cent of the urban population fits into

The Brazilian Workers Party now presents itself as the party of the middle classes

In India there are essentially two middle classes. The first can be called the local middle class; the other the global middle class

this category, or about 50 million people, roughly equal to the population of South Africa. About a third of this global middle class is found in just two states, Maharashtra, which has the city of Mumbai, and Delhi, which has the capital city, New Delhi. Maharashtra has 23 per cent of India's global middle class but only 14 per cent of its population. Delhi has 9 per cent of the Indian global middle class but only 4 per cent of the population.

Members of the local middle class have annual incomes of about US\$6 000 and live in larger households than the global middle class. The average household size for the global class is 3,6 - for the local 4,3.

About three-quarters of the global middle class are employed in the service sector. Between a quarter and one-third are employed in what could be called modern services, such as finance, real estate, banking, and information technology. The share in services has doubled in the last 17 years. Conversely, only about 7 per cent of the local middle class are in modern services. The proportion of those in government and public sector employment is also much higher in the Indian global middle class. About 28 per cent of the global class are employed by the government or public sector, compared to only 11 per cent of the local.

About 40 per cent of the global and around 70 per cent of the local middle class are in what Indians call the informal sector. A large number run their own businesses. This may, however, constitute a broader version of what is commonly regarded as the informal sector in other countries. Half the businesses in the informal sector are actually registered and would therefore not normally be considered informal.⁷ Still, the informal sector is clearly a large and important part of the economy, even amongst middle class Indians.

About two-thirds of the global middle class are salaried. Only 40 per cent of the local middle class receive salaries; half of this group get their salaries from the informal sector.

Formerly discriminated against groups such as the 'untouchables' continue to struggle. They make up about 18 per cent of the total workforce, but only 9 per cent of the global middle class. Their share of the local middle class, more encouragingly, is roughly equal to their share of the population.

In summary then, members of the global middle class are likely to be urban and employed by government or in businesses services, or own their own business. They usually have access to higher education, the key to becoming a member of this class. They are largely English-speaking and mainly upper caste. This group plays an instrumental role through its command of the English media in constructing the very idea of a modern cosmopolitan middle class. So the global middle class enjoys a lot of cultural capital. In addition, members of this class invest a lot in education. In many senses the members of the global class rely on government - either directly for employment, or indirectly to create the environment in which their businesses and professions can thrive.

The local middle class is more diverse and spread across India's states. It is split along language, ethnic, and caste lines. It represents India in all its extraordinary regional, linguistic, and caste diversity. Their occupations are also diverse, and a large number are self-employed, especially in the informal sector. The members of this class do not, however, rely greatly on government and are, in some senses, more self-reliant than the global middle class.

The table below reveals that the global middle class in large cities spends about 5 times more on shelter and education than the local middle class, and about 4 times more on transport, but only about 1,7 times more on food. Its discretionary spending is also about 4 times higher than the local middle class.

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Expenditures Compared

	Global Indian Middle		Local Indian Middle	
	Large Cities	Other Urban	Large Cities	Other Urban
Food	18%	23%	39%	41%
Clothing	4%	5%	5%	6%
Shelter	36%	23%	21%	18%
Fuel and Light	5%	5%	8%	8%
Health	6%	7%	5%	6%
Education	8%	9%	7%	7%
Transport	7%	7%	5%	5%
Entertainment	3%	3%	3%	3%
Other	17%	22%	11%	13%
Total	100%	100%	100%	100%
Annual Income (PPP US\$)	22573	20324	5899	5675

Source: Presentation by Dr Patrick Heller and Dr Partha Mukhopadhyay, A Short Introduction to the Middle Class in India, 9 October 2012

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The table below reveals that the propensity to consume durable goods rises with income, and that in some cases, especially for cars and computers, the proportional consumption of the global middle class is much higher than the local.

Percentage of Households with Durable Goods

	Lower			Local Middle				Global Middle	
	1	2	3	4	5	6	7		8
									top 12.6%
Refrigerator	2%	7%	11%	22%	33%	36%	45%	54%	66%
Motorcycle	3%	9%	13%	20%	30%	33%	40%	45%	64%
Car	0%	0%	1%	1%	1%	2%	3%	5%	34%
Computer	0%	0%	1%	1%	3%	3%	6%	9%	42%

Source: Presentation by Dr Patrick Heller and Dr Partha Mukhopadhyay, A Short Introduction to the Middle Class in India, 9 October 2012

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A barrier to expanding the middle class has been the dire state of education, but India has now at least turned the corner in primary education and the improved outcomes will become apparent in 5 to 7 years time. Literacy is no longer a problem. Almost every child is now in school. The challenge is to keep children in school, and in about half of the cases we fail. Education levels of workers have also risen notably, but there is still a large chunk of the labour market where workers have low levels of literacy.

The new Right to Education Act is an incredible experiment. This Act, which came into force in April 2010, made education a legally enforceable right for all Indian children between the ages of 6 and 14. Before this, it was estimated that 8 million children between the ages of 6 and 14 did not attend school.⁸ Implemented effectively, the Act could blur class divisions that have arisen because private education, which not everyone can afford, is such a large component of education in India.

Generally Indian children have attained more years of education than their parents. This is true of 90 per cent of the population across deciles and social groups. Given that the education of parents in lower deciles is likely to be lower, the share of children more educated than their parents is higher for the local middle class than for the global middle class and even higher for scheduled castes and tribes.

A barrier to expanding the middle class has been the dire state of education

The hope, though, is that at some point increasing the quantity of available education will turn it into quality. Unfortunately state education policies are a disaster and public universities are in crisis. This is resulting in all kinds of strange innovations, such as the growing tuition industry, which has seen students moving out of schools and colleges to receive their education from private tutors. Some people think that this is actually more efficient than the current formal education system. In some states, in the south in particular, public schooling has been a relative success. Many people are still moving out of these public schools and into low-fee private schools but a competitive dynamic is emerging that is encouraging the public schools to improve. One of the failures in the public school system is teachers who fail to turn up. In Kerala they generally do, but in some states absenteeism is a major problem.

Nevertheless, in Kerala, one of the richest states, about 60 per cent of children attend private schools. About 30 per cent of rural children in Uttar Pradesh, which is a very poor state, also go to private school. Even when the education is not of the best, at private schools teachers actually show up, which gives pupils some structure. Another important advantage is private schools' ability to teach in English. State schools apply the 'three language policy' where children are taught in regional languages, as well as English. Many parents do not approve of this and want their children to become proficient in English. Private schools provide options for the entire gamut of incomes. Some charge as little as US\$5 per month.

A major problem is the pipeline from school into higher education. For example, Infosys, India's biggest employer of engineers, has to work with about 500 educational institutions to provide supplementary educational courses to generate a sufficiently well-trained pool of graduates from which it can recruit. India's entrepreneurs are doing a good job of working with the workforce, but both private and public higher education institutions are failing them.

Pratap Bhanu Mehta

President, Centre for Policy Research, New Delhi, India

The rise of the middle class must be linked to the particular history of India. We have a saying: 'It works in practice, but does it work in theory?' This captures the extent to which the outcomes we are analysing are the result of improvisations that could not have been predicted by standard theories, and which we still do not fully understand.

The political role of the middle class is influenced by whether people belong to the global or local middle class. The global middle class is embedded in the global economic structure and has, to some extent, seceded from local politics. This is partly due to an exit from state provision. This class provides many services for itself – private education and healthcare, for example. At the same time, many members of the class are employed by government, while those who own formal businesses rely on the state to provide a business-friendly regulatory environment. The local middle class, by contrast, would prefer to receive better services from government, but lacks the access to power of the global middle class, and is therefore relatively ineffective in pressuring government to improve its performance.

In India, as elsewhere, the idea of the middle class is tied up with a universalising, inclusive vision that anyone who achieves a certain level of education and income can become part of this class. At the same time, however, issues of race and caste continue

The political role of the middle class is influenced by whether people belong to the global or local middle class

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to divide our people, even within the middle classes. These tensions continue to have a fundamental impact on the universal and inclusive message that politicians articulate. Thus tensions between universalism and various particularisms continue to be felt keenly, and will most probably influence middle class processes and politics for a long time to come.

India has the most ambitious affirmative action scheme in the world. In many government departments 50 per cent of positions are reserved for affirmative action candidates. This can rise as high as 69 per cent for some positions, which has created a lot of tension within the middle class. On the one hand, the universalising tendencies that form part of many middle class identities have led people to oppose the categories created by affirmative action. On the other, middle class members have purposefully stressed their ethnic or caste identities to qualify for affirmative action positions. These tensions have had a big impact on how middle class Indians relate to the state.

In a sense, these tensions link to the growing tendency among middle class Indians to identify themselves as part of a meritocracy. By seeing themselves in meritocratic terms middle class people can convince themselves, as well as those outside the middle class, that those who have more, deserve what they have got. Affirmative action undermines this project, which is possibly why there is growing middle class opposition to the policy.

A more positive element of the inclusiveness of society can be found in the relatively low levels of violence that Indian cities experience. One reason is that the poor have been able to settle and ply their trades across Indian cities without facing too many restrictions. This has made for messy cities and resulted in problems with infrastructure and service provision. But it also means that the segregation between slums and privileged areas is less pronounced than in the cities of most countries. As a result, Indians of all classes feel that the cities belong to them. Urbanisation is much less of a contest between insiders and outsiders in India, and as a result urban violence is much more muted than in countries like Brazil. Another aspect of the inclusiveness of the social fabric relates to the extent to which Muslims are excluded from the political order. Muslims do face various forms of discrimination and in some ways are becoming more marginalised. Nevertheless, despite the rise of Hindu nationalism and the impact of global terrorism, none of the apocalyptic predictions regarding Hindu-Muslim relations have come to pass. This is because democracy has the capacity to moderate radicalism. Democratic incorporation is critical in diffusing violence.

An interesting phenomenon, which is probably emerging in most democracies, is the rise of what could be called post-representative politics. Electoral politics, with elections and parliament and elected local councils, continue to be an important component of democracy. But increasing political energy is being devoted to institutions such as courts, tribunals, and independent commissions – all institutions where the middle class has a strong presence. Middle class voting rates are similar to other population groups but they are also focusing on other ways to influence policy outside the central representative institutions. Most middle class energy, especially within the anti-corruption movement, is devoted to producing new forms of accountability for the state.

The middle class is as much implicated in state corruption as everybody else, but as this class grows the ability of the state to placate all its members steadily decreases. One result is intra-middle class competition, which leads to arguments between equal adversaries that can only be settled by instituting new rules. The state is, as a result, moving to a more decentralised, rules-based system. The old order based on hierarchy, secrecy, and wide discretion is rapidly breaking down. It will be interesting to see whether politically

Democracy has the capacity to moderate radicalism

active members of the middle class will be able to institutionalise new rules based on transparency, public accountability, and public reason. That will be the big question regarding the middle class's contribution to democratic politics.

MIDDLE CLASSES IN SOUTH AFRICA

In South Africa, studies of the emerging middle class are at an early stage and there is much that the country can learn from Brazil. Nevertheless, a growing number of people are analysing the growth of the middle class, and have employed a wide range of definitions to measure it. These studies are summarised in the box below. The discussion started with a history of the rise of the black middle class by Professor Charles Simkins; an examination of the shifting political orientation of the black middle class based on surveys by Professor David Everatt; a review of some of government's crucial policy interventions by Siphon Pityana; and an overview of the evolving situation by Ann Bernstein.

MEASURING THE SOUTH AFRICAN MIDDLE CLASS

Different approaches to defining the middle class have been used by South African researchers. For example, Professor Charles Simkins presents three definitions.

The first uses Living Standards Measures (LSMs), developed by the South African Advertising Research Foundation (SAARF). People are placed in 10 different LSMs, depending on whether they own certain consumer goods, live in an urban area, or own or have access to a motor vehicle. Income is not a criterion. In 2000 some 16 per cent of South Africans were in the top 3 LSM categories. This rose to 18,4 per cent in 2005 (about 10,8 million people) and 23,5 per cent in 2010 (about 12,2 million).⁹

Information from Statistics South Africa (Stats SA), the official statistics agency, was used in the second definition. This approach had a relatively low entry threshold. For a household to be considered middle class by Stats SA it had to fulfil the following criteria: live in formal housing; have a water tap and flush toilet in the dwelling; use electricity as the main source of lighting; use electricity or gas as the main cooking source; and the dwelling had to have a landline telephone, or at least one member of the household had to have a cell phone. The proportion of households classified as middle class by Stats SA between 1998 and 2000 was 23,4 per cent, equivalent to 10,2 million people. Between 2001 and 2003 this increased to 24,6 per cent, equivalent to 11,4 million people. For 2004 to 2006, about 26,2 per cent of households, or 12,4 million people, could be considered middle class.

According to Stats SA some 52 per cent of these households had expenditures exceeding R2 500 per month while 28 per cent had expenditures exceeding R 5 000 per month per capita in 2006 (about US\$25 per day in 2005 PPP dollars). Professor Simkins notes that there is 'limited congruence between an amenities-based definition and an income-based definition'.¹⁰

The third approach is self-identification, using the World Values Survey from 2006. Some 21 per cent of respondents thought of themselves as upper middle class and the same proportion as lower middle class. This means that 42 per cent, or nearly half of all South Africans, considered themselves middle class.¹¹

Per capita income for the black middle class has increased by 30 per cent since 2004

What is happening and what are the implications?

The Unilever Institute of Strategic Marketing at the University of Cape Town (UCT) has focussed its work on the black middle class, which it initially referred to as 'black diamonds'. It found that the class had grown from 1,7 million in 2004 to 4,2 million people in 2012. Over the same period the number of middle class white South Africans increased from 2,8 million to 3 million.¹² To be categorised as middle class, a black household had to meet 3 of the following 4 criteria: household income between R14 000 (US\$1 493) and R50 000 (US\$5 333) per month¹³; adults had to have or be studying towards a tertiary qualification; own a business or work in a white-collar job or profession; and own a motor vehicle.¹⁴

According to Professor John Simpson, the author of the study, per capita income for the black middle class has increased by 30 per cent since 2004, adjusted for inflation. For households the corresponding increase was 34 per cent, with the average income of a black middle class household being R20 985 per month. The average income of middle class white households was R25 115.¹⁵ The study also found that 65 per cent of the black middle class owned their own house and the same proportion sent their children to private or former 'Model C' schools. In addition, 35 per cent of the class are employed by the government.¹⁶

According to the institute, the black middle class spends about R400 billion per annum, compared to R320 billion spent by its white counterparts.¹⁷

Justin Visagie, an economist and director at the Eastern Cape Department of Economic Development, recently released a valuable paper, using two measures to define the middle class. The first identifies those who are in the middle of the average income distribution, which he calls the 'literal middle'. He calls the second the 'relatively affluent middle'. To determine incomes he used the National Income Dynamics Study (NIDS) of 2008 and estimates the average South African household to have four members. NIDS is a national survey conducted by the Southern Africa Labour and Development Research Unit (SALDRU) based at the School of Economics at the University of Cape Town.

The 'literal middle' have a household income of between R1 520 and R4 560 per month, in 2008 income levels and rands, comprising after-tax labour market income, government grants, other government income, investment income, and remittance income.

There are 4,2 million households in the 'literal middle', making up 30,9 per cent of all households, with about 12,7 per cent of total income. The proportion of households with incomes below R1 520 per month is also 30,9 per cent of the total, and accounts for 5,0 per cent of total income. The largest group of households is those with incomes of above R4 560. Some 38,2 per cent of all households fall into this category.

In defining the 'relatively affluent middle', Visagie looked at households where the highest income earner had a 'typically middle class profession' identified as 'managers, senior officials, legislators, professionals (such as teachers and nurses), associate professionals, technicians and clerks'. Middle class households were then defined as those with after-tax incomes of between R5 600 and R40 000 per month. There were 4,1 million such households in 2008, equivalent to 29,9 per cent of all households, accounting for 47,3 per cent of total income. The number of households with incomes below R5 600 per month was 9,5 million, equivalent to 66,2 per cent of all households. Their share of total income was 21 per cent. Households with incomes above R40 000 numbered 500 000, or about 3,9 per cent of all households, and accounted for 31,7 per cent of total income.

Visagie's main conclusion is that the middle class (as understood in everyday usage) is not in the middle of the income distribution. And those who are in the middle are not 'middle class' (in the sense of being above some minimum level of affluence).¹⁸

He would probably agree with Simkins' conclusion that, 'however you define it, in absolute terms the South African middle class is tiny by Brazilian and Indian standards'.

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35 per cent of the black middle class are employed by the government

SUMMARY OF DEFINITIONS

Organisation	Definition	Size of the middle class by number and as proportion of the population
South African Advertising Research Foundation – Living Standards Measures	Defined by whether respondents own certain consumer goods, live in an urban area, or own or have access to a motor vehicle.	12,2 million or 23,5% (2010)
Statistics South Africa	Defined by whether respondents live in formal housing; have a water tap and flush toilet in the dwelling; use electricity as the main source of lighting; use electricity or gas as the main cooking source; access to a landline or cellular phone	12,4 million or 26,2 % (2004 – 2006)
World Values Survey	Self-identification	19,9 million or 42% (2006)
Unilever Institute for Strategic Marketing – University of Cape Town	Fulfil three of the following four criteria: household income of between R14 000 (US\$1 493) and R50 000 (US\$5 333) per month; adults in the household had to have or be studying towards a tertiary qualification; own a business or work in a white-collar job or profession; and own a motor vehicle	7,2 million or 13,9% (2012)
‘Literal middle’ – Visagie	Households that are literally in the middle of the income distribution, with incomes of between R1520 and R4 560.	16,8 million or 30,9% (2008)
‘Relatively affluent middle’ – Visagie	Highest wage earner in a household with a ‘typically middle class profession’ and household incomes of between R5 600 and R40 000	16,4 million or 29,9% (2008)

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The middle class is not in the middle of the income distribution. And those who are in the middle are not ‘middle class’

Charles Simkins

Professor and Head of the School of Commerce, Philosophy, and Applied Ethics at St Augustine’s College, Johannesburg

The growth of the black middle class can be traced back to the 1970s when, despite continued obstacles created by apartheid, employment of black labour in urban areas grew rapidly. Moreover, demand for labour became more sophisticated. The Manpower Surveys published between 1973 and 1996 show a growing proportion of middle class occupations in the economy as a whole, and among black people in particular. Meanwhile, as a result of new forms of territorial apartheid, three universities were designated for blacks in the homelands in 1959 and homeland administrations were built up from about

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the same date. There was no prospect for private economic development in the poverty-stricken homelands, so the government developed a 'border industries policy', subsidising manufacturers to locate on the borders of homelands to employ a homeland-resident labour force, a policy with little success. Accordingly, middle class development in these areas was limited to the civil service, including educators and health professionals.

It should be noted that government policy was to encourage black settlement in the homelands and in this it had considerable success. Tightly enforced influx control stabilised the proportion of blacks in the cities for about 20 years between the mid-1950s and the mid-1970s, after which the system was increasingly breached until its abolition in 1986. The government also paid pensions to black people in the homelands. So the demand for an administrative class in the homelands grew rapidly.

Economic growth slowed to 3,9 per cent between 1970-1975, 2,7 per cent between 1976-1984, and 1,1 per cent between 1985-1994. Opposition to apartheid grew, accompanied by rising international disapproval from the early 1960s, which intensified with the Soweto revolt in 1976 and once more as apartheid rolled out its final plan, a tricameral parliament and an association of black states, in the early 1980s. The black middle class initially led the fight against apartheid, but was rapidly overtaken by rising mass participation in the 1980s.

An additional factor promoting the emergence of a black middle class was the role played by the more farsighted business leaders, who had seen in the late 1970s that restrictions on the black middle class in urban areas would leave a market economy dangerously exposed in a post-apartheid order. Accordingly, the Urban Foundation was formed in 1976 to lobby to remove apartheid restrictions. Partly as a result, 30-year leasehold rights, followed by 99-year leasehold rights, followed by freehold titles to immovable property were granted to black people in urban areas, with unrestricted rights on the ownership of business in the 1980s.

The end of apartheid and election of a government led by the African National Congress (ANC) in 1994 had two major effects on the middle class. Reform-minded middle class whites felt that their goals had been accomplished and largely retreated from the political arena. Business organisations remained but struggled to function effectively. The black middle class, by contrast, resorted to political pressure to advance their circumstances considerably. Ad hoc responses, such as sale of equity, employee share ownership schemes and accelerated upward mobility of individuals were gradually consolidated into 'broad-based black economic empowerment' with a legislative framework established in 2003.

The black economic empowerment (BEE) system works as follows: large businesses keep scorecards on black participation in seven areas: equity ownership, management control, employment, the supply chain, new enterprise development, and socio-economic development. Smaller businesses can choose four of the last six fields to be assessed in, and very small businesses are exempt. Government-accredited assessors issue certificates verifying a business's overall score from precisely specified scales. Businesses can use these scores in tendering for government contracts. Ten per cent of points awarded to a tender for large government contracts are awarded on the basis of the BEE score, price counting for the remaining 90 per cent. For smaller government contracts, the proportions are 20 per cent and 80 per cent. This system supplies an incentive to comply, but does not compel compliance.

It is impossible to quantify what effect this system has had. There is no centralised information and no survey-based assessment of its impact. In general terms it puts pressure

In absolute terms the South African middle class is tiny by Brazilian and Indian standards

on white business.¹⁹ It also imposes substantial compliance costs and ‘re-racialises’ the labour force, requiring business to keep statistics of a kind that apartheid never required. Inevitably, the programme creates tension between the white and black middle classes, just as affirmative action created tensions between the Chinese and Malay middle classes in Malaysia. In neither case have the tensions proved unmanageable.

The irony is that while employment growth promoted the black middle class under apartheid, extremely high unemployment has been a major constraint on the growth of the black middle class in the post-apartheid era. Household survey data on the labour force was not collected before 1994; when it became available, it was clear that unemployment was substantial. It has since got worse. The Quarterly Labour Force Survey for the first quarter of 2012 provides the following estimates (in thousands) of the population age 15 and above:

Employment	13 422
Formal	9 509
Informal	2 106
Agriculture	656
Private households	1 151
Unemployed	4 526
Discouraged workers	2 335
Other not economically active	12 609
Official unemployment rate:	25.2%
15-24	49.7%
25-34	30.1%

Source, Labour Force Survey, 2012

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Extremely high unemployment has been a major constraint on the growth of the black middle class in the post-apartheid era

In the mid-1990s, people who had never worked were close to two-thirds of all unemployed, and it was clear that young people were waiting a long time (for many through much of their 20s) before being absorbed into the labour force. The proportion of unemployed who have never worked has dropped, but this probably means that having a job is now less a guarantee of future employment than it was in the mid-1990s.

The ANC government has been careful to address the interests of the middle class. Black economic empowerment has been the principal instrument of delivery, but the class has also benefited from improved service delivery. On the other hand, the white middle class has been able to maintain and even advance its position, benefiting from the lifting of sanctions which became pervasive in the late apartheid years. It is also worth noting that as the black middle class grows relative to the white middle class (and it will do so partly for demographic reasons, the white population being more or less static at about 4,5 million), black economic empowerment in its aspect of rent creation at the expense of the white middle class will progressively lose traction.

Of course, not everything has been done at the behest of the middle class. Organised labour coalesced early around workplace rights and an extensive set of these were written

in to law in the mid-1990s. The Congress of South African Trade Unions (COSATU) has consistently argued for more accommodative monetary and fiscal policy, with the implication of a weaker rand. It felt particularly betrayed by the 1996 Growth, Employment and Redistribution Policy (GEAR), which tightened fiscal policy as condition for substantial growth in public spending. COSATU referred to GEAR as the '1996 class project', a phrase echoed by elements in the current administration. More recently, the ANC Youth League (ANCYL) and its erstwhile leader, Julius Malema, espoused a crude populism, much to the distaste of the middle class, white and black. Eventually the ANC had to discipline him, not without difficulty, since there was dissension in senior ANC ranks on the matter. The net result has been to make the ANC anxious about the NEETS (young people not in employment, education, and training).

In the final analysis, despite many positive developments in terms of the growth of the black middle class and the general prosperity of the middle class as a whole, the middle class, at around 4 million households, remains a small and precarious group.

David Everatt

Executive Director, Gauteng City-Region Observatory, Wits University

Given the apartheid past there is a strong interest in understanding the emergence of the black middle class. At the same time there is much discomfort about mingling race and class terms in this way, especially as we are enjoined to develop a 'non-racial, non-sexist' society by our constitution. Nonetheless, the black middle class is a new, exciting socio economic phenomenon in a society that for centuries did its best to stop any such class emerging.

While the post-apartheid ANC has stuck steadfastly to its rhetorical commitment to non-racialism and to uniting the 'Rainbow Nation' (to use Archbishop Tutu's phrase), in reality the ANC has increasingly come to reflect its name – the party for Africans; it exhibits an increasingly exclusive African nationalism. In return whites, coloureds, and Indians (the 'minority groups') have increasingly abandoned the party at the polls. Interestingly, the black (African) middle class is beginning to do the same, albeit for different reasons.

The ANC claims the poor and working class as its constituency (this claim is reciprocated at the polls), but is also the party charged historically with developing a black bourgeoisie, which segregation and apartheid (and Bantu Education) worked so diligently to prevent. The poor and working classes are overwhelmingly black (in 1995, about 95 per cent of those in poverty were African, the remainder coloured).²⁰ This situation has barely changed.²¹ Although half the middle class is now African, whites, coloureds, and Indians are massively over-represented compared to their demographic profile.

The ANC has long prided itself on being a broad church that could appeal across race and class boundaries. This broad saw successive majorities either just over or (in the last general election) just under the 66 per cent needed to amend the Constitution. By 2012, the claim to ecumenical breadth of appeal was wearing thin. The ANC's voter base is overwhelmingly African, and poor or working class. As we see below, middle class African voters feel less and less that the ANC is the party for them, even though they have been able to advance because of the ANC's successful management of a peaceful transition to democracy, its ushering in of a liberal constitution with rights for all, and policies promoting macro-economic stability. The irony is that the ANC has been a party of and for the middle class, without admitting it publicly, and without the middle class appreciating

The middle class, at around 4 million households, remains a small and precarious group

the fact. Although the black middle class may be feeling less warm to the ANC electorally, they are looking for a party that is both more friendly to their class needs and black-led – race and class are still equally important; we are still too close to apartheid to expect class to trump race.

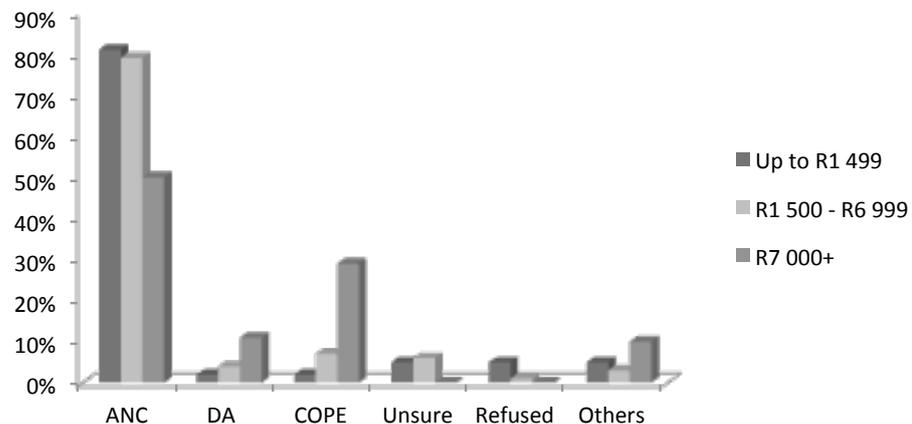
The evidence that the black middle class is turning against the ANC comes from a baseline survey conducted in Gauteng province, spatially the smallest, yet the most populous and the largest contributor to Gross Domestic Product. The survey was undertaken before the 2009 general election, in which the ANC faced a challenge from a rival (the newly formed Congress of the People or COPE) led by Africans, with struggle credentials, that could not be written off as easily as the white-led Democratic Alliance (DA), or the far smaller (though punching way above its weight) Independent Democrats.

In the graph below²² we look only at the self-reported voting intention of African respondents in the survey, against three broad income bands that reflect Statistics South Africa’s income categorisation. It is apparent that the ANC’s core vote is drawn from among the poor. Eight in 10 African voters from low-income households – equivalent to three-quarters of all African households in Gauteng – said they would vote ANC.

Incomes clearly matter when it comes to political attitudes and voting behaviour. When pre-election survey results were analysed, using the R7 000 per month income as the break between lower and middle class, it was clear that only half the people in this group were still firm ANC voters. The other half were looking around for an alternative political vehicle. Most were not ready to vote for the official opposition, the DA, but were interested in COPE. The emerging black middle class is clearly shifting its political allegiances.

Middle class African voters feel less and less that the ANC is the party for them

Figure 1: ‘Which party would you vote for if the election were held tomorrow?’ by monthly household income, only showing main parties/categories



Source: S&T Gauteng baseline survey, 2008

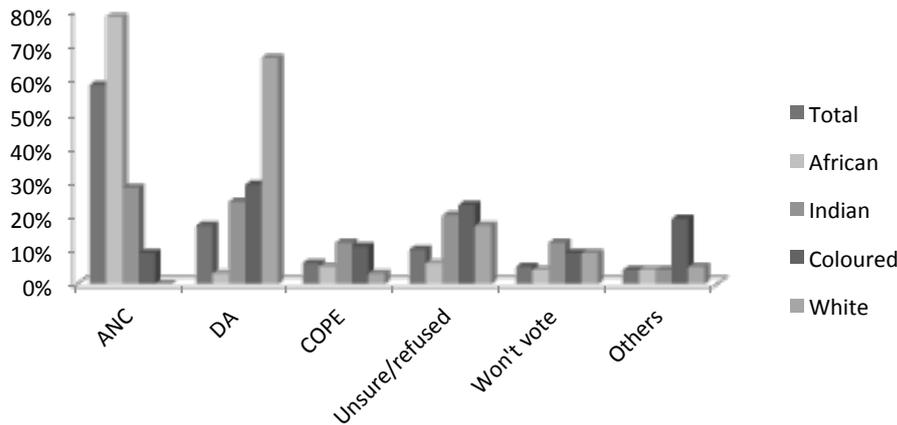
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The figures denote the percentage of each income category that expressed their intention to vote for the ANC, DA, COPE, were unsure or would not vote. Not shown is that 91 per cent of respondents in the top income bracket were ‘very sure’ of their party preference, suggesting that the ANC had indeed permanently ‘lost’ half of this small but growing African income cohort.

What is happening and what are the implications?

The same survey generated the next set of results, which show voting intentions by race. What is evident is that while a large proportion of whites support the DA, a significant proportion of whites may be waiting for a new party that would provide an effective alternative to both the ANC and the DA. It is even more obvious that Indian and coloured voters are divided about who to vote for.

Figure 2: Voting intention by race



(Source: S&T Gauteng baseline survey, 2008)

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These findings suggest that post-apartheid voting certainties are fading rapidly, and that both race and class are at play. It is apparent that there is a complex and fraught relationship between the ruling party and the black middle class.

In focus groups with participants from the black middle class (defined by occupation), the ANC was repeatedly accused of 'nepotism', an adjective used to describe participants' failure to win government tenders and thus occupy a more secure middle class position than the fragile, easily reversed one they were in. The global financial crisis heightened this sense of insecurity. Many black middle class participants complained that despite (in their view) being professionally and racially qualified to win government tenders, they were outside the charmed circle of ANC insiders in their locale, and thus shut out of access to government resources - obviously a critical revenue stream for the emergent black middle class.

Overall, then, a middle class alliance appears to be slowly emerging - not a conscious alliance, and not a comfortable one, but one driven by a set of shared grievances, at the heart of which is how the ANC is seen variously as corrupt, nepotistic, and incompetent. However, this loose 'alliance' remains deeply rent by race-based suspicions. The uniting factor is the ANC: in each instance, those who feel themselves to be 'victims' hold the ANC responsible. This nascent middle class alliance is therefore bound together by a shared grievance of being cut out of economic advancement by ANC nepotism. It is not yet an electoral threat to the ANC, and lacks the internal coherence or stability that would permit easy organisation or mobilisation behind common objectives. That day, however, is not far off.

The good news, then, is that in slow and non-linear but apparently unstoppable fashion, class is taking hold in South African politics, where race has been dominant for so long.

A middle class alliance appears to be slowly emerging – not a conscious alliance, and not a comfortable one

The ANC has shown itself to be remarkably flexible and sensitive to changing currents around it. But the difficult challenge now is what policy choices will it make in the face of a black bourgeoisie whose class interests diverge from those of the poor? What will it do as it faces compounding the loss of white, coloured, and Indian votes with the possible loss of middle class African votes as well? As the broad church increasingly fragments into splinter groups and factions, or whole sections hive off, what will the ANC do? Will it return to the ANC of the 1940s, when it was a party for 'distinguished university graduates'²³ and a liberal, elitist body intent on developing a black bourgeoisie? Or will it eschew the economic policies it has adopted since taking power in 1994, and more vigorously pursue redistribution of wealth and a radical restructuring of the economy via direct intervention, nationalisation, and a command economy – an approach whose slogans have fuelled the rise of demagogues such as Malema? Or will it find a 'third way,' some policy flexibility and an ability to see beyond short-termism in a way that will unite South Africans, as Mandela briefly achieved?

Sipho Pityana

Chairman, Council for the Advancement of the South African Constitution

Policies geared towards helping the poor mostly centre on subsidised services such as housing, water, electricity, healthcare and education as well as social security transfers. There has been a great increase in access to water, sanitation and so on. The housing programme has been recognised by the United Nations as one of the most pioneering. There has been a great deal of targeted intervention aimed at helping the poor. However, this has also resulted in a great deal of dependency on the state, which has had a demobilising effect on society.

A policy that has largely been about helping black South Africans enter the middle class, particularly at the upper end, is Black Economic Empowerment (BEE). Its effectiveness has not been measured in any meaningful way, and its impact has been uneven. BEE works in the framework of a market system, which, by definition, implies an uneven distribution of assets. At the beginning of democracy those at the top economically were exclusively white. The BEE project was to promote ownership by blacks, which has grown, but perhaps not enough. One criticism of BEE is that ownership is concentrated amongst a few politically-connected individuals. However, a number of those who have benefited see themselves as successful businessmen who do not have a track record in politics.

There are also other policies now included under BEE, including employment equity and preferential procurement. The first pushes employers to prioritise the hiring of appropriately qualified black candidates and the second encourages government to acquire goods and services from companies that have black owners. These have also had mixed success. It is not true, however, that the ANC is prioritising racial differences or 'playing the race card'. Its fundamental goal is to create a non-racial society, and the party remains committed to that.

It will be vital to generate higher rates of economic growth so that both the middle class and others can prosper

Ann Bernstein

Executive Director, Centre for Development and Enterprise

It is ironic that the ruling party, the ANC, whose rhetoric focuses on poverty reduction and receives the vast majority of its vote from the poorest South Africans, has put enormous amounts of energy into growing a middle class. It is clear, in fact, that the ANC has done more for the black middle class than it has done for poorer South Africans. If the government really cared about the poor its priority would have been to improve the quality of education.

Nevertheless, building a black middle class is important. Unfortunately, how it has been undertaken has added to the country's challenges. The state's approach has increased dependency, promoted corruption, and built the deal-making rather than the entrepreneurial sector of the economy.

This raises important questions. What will the consequences be if the loudest voices in society are urban middle class black South Africans, who are becoming increasingly organised? Will South Africa build a more independent middle class based on the market? How will the market economy develop and who will have an interest in promoting higher economic growth? Will the middle class remain built on 'special relationships' with the state, in the form of tenders and patronage? It will be vital to generate higher rates of economic growth so that both the middle class and others can prosper, and more and more excluded outsiders can enter the new middle class.

South Africa has been a democracy for 18 years, and we are now in a challenging period. Like Brazil, South Africa has sharp divisions between 'insiders' and 'outsiders', but, unlike Brazil, these divisions are hardening rather than eroding. This might seem surprising. But large numbers, mostly the unemployed and poor, are not able to benefit from expanding economic opportunities. While benefitting from some transfers and public services, they lack access to jobs, good infrastructure, decent health care and good quality schooling.

South Africa is urbanising, but not to the levels of Brazil, which is more than 85 per cent urbanised. The process is not managed well enough to allow the country to take full advantage of its dynamism and new opportunities. The local government system is struggling and most local authorities are quite dysfunctional. In addition, society has failed to deal with the legacy of the homelands. It was assumed that these areas - where black South Africans were expected to live during the apartheid era - would modernise once apartheid was overthrown. However, this has not happened and the country has not developed a clear vision for how rural South Africans can contribute to and participate in modernisation. We need to think hard about what is best for people in the rural areas, and how we can effectively modernise property rights in traditional rural areas. Our land reform programme has had some successes but in terms of promoting black commercial farmers or changing the life chances of those now on restored land it has not been a success. Land reform has harmed agricultural development overall. South Africa is a water-scarce country with limited agricultural potential, but there are important areas where we could be doing much better.

There is a new phenomenon which the press has labelled 'social distance'. The mining tragedy at Marikana, where the police ended up shooting a large number of people, is used as an example. One key reality revealed by this incident was the yawning gulf between union leaders and members. Union leaders are paid middle class salaries and ordinary workers have started to question the difference between these salaries and their own, as well as the close relationships between union bosses and mine managers. This

One criticism of BEE is that ownership is concentrated amongst a few politically-connected individuals

contributed to some workers starting a new union and initiating the strike action that led to the Marikana massacre.

The result is a time of real turbulence, which requires visionary leadership from mining companies, civil society, and most importantly the state. South Africa needs to create a more inclusive society, in which the middle class grows rapidly and inequality is reduced, with stronger economic growth and the expansion of quality education and economic opportunities to those who can currently be defined as 'outsiders.' The country has one of the worst unemployment rates in the world, at 25 per cent, which does not include those who have given up looking for work.

All this will require tough choices and leadership. The role of the growing black middle class will be crucial. Will they continue to see their interests and those of their children best served by the current rather incompetent and increasingly corrupt ruling party and government or will they start to lead other South Africans into a new political future?

Government has not displayed real leadership for some time, and certainly has not produced a clear vision and roadmap to which the vast majority of the electorate is committed. Some of its actions are undermining the very democracy the ANC helped to institute.

A striking thing about Brazil is how, for at least five presidential terms, there has been broad agreement on where the country is going and how best to get there. South Africa is not in that position. Inclusive and visionary leadership committed to our democratic constitution and embracing all South Africans will be required to consolidate the country's future as a democratic and prosperous state. This is radically different from the soft authoritarian option which sometimes appears to be looming.

The growth of the 'new middle class' is one of Brazil's most impressive achievements

SUMMARY AND KEY INSIGHTS

The workshop summarised the ground-breaking research taking place, especially in Brazil, but also in India and South Africa. It demonstrated that, above all else, growing middle classes are a central feature of the rising democracies of India, Brazil and South Africa.

Middle Class Trends in Brazil

Studies of the Brazilian middle class largely employ a definition developed by the federal government's Secretariat for Strategic Affairs, which classifies people as middle class if they have achieved the relatively low per capita household income of between US\$161 and US\$564 per month. This definition reflects an interest in assessing the status of the millions of Brazilians moving out of poverty and into income categories where higher consumption levels and greater expectations for the future are possible.

The growth of this 'new middle class' is one of Brazil's most impressive achievements. Between 2001 and 2011 the proportion of people that could be classified middle class grew from 35 per cent to nearly half. In 2001 35 per cent of Brazil's population (which was about 176 million) equated to 62 million people. By 2011 Brazil's population had grown to nearly 197 million. Fifty per cent of that is 98 million, giving an increase of 36 million.

What is happening and what are the implications?

Other important trends identified at the workshop were:

- The Brazilian middle class is about the same size as the entire population of Mexico.
- The Brazilian middle class will account for 57 per cent of the population by 2022. However, its growth will slow as middle class people exit into the upper class.
- Black Brazilians account for 80 per cent of new entrants into the middle class. People from rural areas, people from the relatively impoverished north-east region, those that work in the informal sector and domestic servants all make up a larger proportion of the middle class than ever before. The proportion of the middle class that was white dropped from 68 per cent in 2001 to 51 per cent in 2011.
- Between 2001 and 2011 the household income of people classified as extremely poor grew by an average of 14 per cent per annum. Incomes for people living in households classified as upper class grew by only 2 per cent over the period.
- Between 1995 and 2011 the proportion of workers employed in the formal sector went from 30 to 40 per cent.
- At the lower end of the spectrum incomes for individuals are rising much more slowly than household incomes. Brazil's fertility rate is now 1.9 - lower than that of France. Smaller families with multiple incomes make household better off and allow them to rise into middle class categories.

Key Insights about Brazilian Middle Classes

In contrast to commentators who claim that Brazil's successes in reducing poverty and inequality are the result of government income-transfer programmes, careful statistical work undertaken by Brazilian economists shows that this is far from the case.²⁴ While the modest transfers that poor people receive have played some role at the lower end of the income spectrum, the impact of economic growth has been far more important.

Evidence also indicates that government's redistribution programmes have had a negligible overall impact on reducing inequality. The reason that inequality has fallen and the middle class has grown is primarily that a period of solid – although not spectacular – economic growth generated income earning opportunities that poor people with rising education levels could access. In the first decade of the century the economy grew by 3,6 per cent annually. As a result the number of people in unemployment fell and productivity levels of many workers rose. Both processes allowed real incomes to rise and lifted 40 million people out of poverty.

While these findings are clear, less understood is why society has performed so well in including people in the past 10 years. One factor is the ability to take advantage of the commodity boom, especially rising demand for commodity exports from China. However, Brazilian experts repeatedly admitted that they cannot fully explain Brazil's successes in reducing poverty and unemployment. Suggested possible additional factors included accountable, relatively effective local government, the high rate of urbanisation, and employers' ability to work around complex labour regulations. These issues require further research before the lessons of Brazil with respect to the growth of the middle class and reducing poverty and unemployment can be applied properly.

An additional note of caution raised repeatedly by Brazilian experts was that one must be careful when generalising about this 'middle class,' especially its impact on politics.

In India, the idea of middle class is tied up with a universalising, inclusive vision

The political scientist, Bolivar Lamounier, summed this up when he pointed out that the term 'class' was originally used to depict a group of people who held a common position within the economic structure and had developed a conscious sense of themselves as a class. In his view this does not apply to the Brazilians who have been identified as a new middle class. Small business owners make up a tiny proportion of this class. The emerging Brazilian middle class appears to be a new social phenomenon: a middle class heavily dominated by workers. At the same time, diverse ranges and sources of income and a variety of identities stand in the way of this group constituting a coherent class in the strict sense. Sociologist Bernardo Sorj made two further points. First, that a middle class defined in terms of status or occupation is different to one defined by consumption. He also pointed to important differences between those working in the public and the private sectors: 'a person who receives a salary from the state will have different demands and expectations to somebody who receives a salary from a private entity'.

Despite these complexities, there was broad agreement that the rise of this new middle class represented an important change in the character of society. It was agreed that such a large proportion of people consuming more and developing ambitions permitted by higher incomes will have profound consequences. An important further point was that the ruling Workers Party has presided over a situation where almost all workers are now classified as middle class. As a result, there is no longer an official working class in Brazil.

'A person who receives a salary from the state will have different demands and expectations to somebody who receives a salary from a private entity'.

Middle Class Trends in India

The subcontinent is characterised by considerable regional variation. India has also achieved significantly higher growth rates than Brazil and South Africa recently, but with a population of 1,2 billion is much poorer than the other two. Per capita income is US\$3 627, compared to South Africa's US\$10 960 and Brazil's US\$11 640. The distinction between two types of middle class (local and global) allows analysts to assess the rate at which people are moving out of lower income quintiles into the middle, and also the much smaller income group near the upper end of the distribution who have standards of living and aspirations comparable with middle classes in richer countries.

The local middle class consists of urban Indians earning between 75 and 150 per cent of the median Indian income. In 2005 (the latest year for which figures are available) the median per annum household income was US\$652 and the median per capita income was US\$125.²⁵ They make up 40 per cent of the urban population and consist of about 150 million people.

The global middle class is defined as people who live in households that consume between US\$10 and US\$100 per person per day. About 12,5 per cent of the urban population fits into this category, which consists of about 50 million people.

Additional insights about these two 'middle classes' were:

- Members of the global middle class are likely to be urban and employed by government or in business services, or own their own business. They usually have access to higher education, the key to becoming a member of this class. They are largely English-speaking and mainly upper caste. They are concentrated in a few geographic areas, particularly the states of Delhi and Maharashtra.
- The local middle class is more diverse and spread across the states. It is split along language, ethnic, and caste lines. It represents India in all its extraordinary

What is happening and what are the implications?

regional, linguistic and caste diversity. Their occupations are also diverse. A large number are self-employed, mainly within the informal sector.

- Average household size for local middle class Indians is 4.3 compared to 3.6 for global middle class Indians.
- Members of the global middle class spend five times more than local middle class Indians on education and shelter.
- The proportion of the local middle class working in the informal sector is 70 per cent. For the global middle class it is still very high, at 40 per cent.
- Two-thirds of the global middle class receive regular salaries, compared to only 40 per cent of the local middle class.
- The local middle class has an annual household income of US\$6 000, compared to the global middle class household income of US\$22 573.
- Two-thirds of the global middle class have a refrigerator, a third have a car, and 42 per cent have a computer.
- Nearly half the local middle class have a refrigerator, less than 5 per cent have a car, and less than 10 per cent a computer

Key Insights about Indian Middle Classes

Both classes have played a muted political role in recent times. The local middle class focuses on making a living and feels relatively disconnected from the political process. They are self-reliant but would greatly benefit from better government services. The global middle class, many of whom work in government, have opted for private services and therefore do not devote much energy into pressurising government for better service delivery. The rural poor have been more active politically and in a number of states obtained programmes in their favour.²⁶ The recent pattern has been that political parties have tended to ignore urban interests and sought to attract rural voters with welfare schemes and agricultural subsidies.

In India, the idea of middle class is tied up with a universalising, inclusive vision that anyone who achieves a certain level of education and income can become part of this class. Seeing themselves in meritocratic terms helps middle class Indians justify their higher incomes. At the same time, however, issues of race and caste continue to divide Indians, even within the middle classes. These divisions are sometimes exacerbated by affirmative action policies.

A positive element of the inclusiveness of Indian society can be found in the ability of the poor to settle and ply their trades across Indian cities without facing too many restrictions.

This prevents a contest from emerging between urban insiders and outsiders, which could explain why urban violence is much more muted in India than in countries like Brazil.

Middle Class Trends in South Africa

In South Africa the equivalent of the local middle class, what economist Justin Visagie calls the literal middle and defines as households with monthly incomes between US\$190 and US\$570, adds up to 4,2 million households or 30,9 per cent of the population.²⁷ Global middle class households are defined as having after-tax monthly incomes of between

The dire state of education stands in the way of more rapid middle class expansion

US\$700 and US\$5 000. There were 4,1 million such households in 2008, making up 29,9 per cent of the population.

There is, however, little agreement about the size of the middle class. The proportion varies according to the measure used:

- According to the South African Advertising Research Foundation, using Living Standards Measures (LSMs), 23,5 per cent (about 12,2 million people) of South Africans were middle class in 2010. People are placed in 10 different LSMs, depending on whether they own certain consumer goods, live in an urban area, or own or have access to a motor vehicle. Income is not a criterion. The middle class was defined as people in the top three LSMs.
- Statistics South Africa research shows that 26,2 per cent, or 12, 4 million people, of South Africans were middle class in 2004-2006. People were classified as middle class if they had access to all the following amenities: formal housing; water tap in dwelling; flush toilet in dwelling; electricity as the main light source; electricity or gas as the main cooking source; and access to a landline or cell phone.
- In 2006 some 42 per cent (19,9 million) of South Africans self-identified as middle class, according to the global World Values Survey.
- About 14 per cent, or 7,2 million, South Africans were middle class in 2012, according to the UCT Unilever Institute of Strategic Marketing.

Other points relating to the black middle class from the Unilever study are:

- The class more than doubled between 2004 and 2012, from 1,7 million to 4,2 million individuals. The average monthly income for a black middle class household in 2012 was R21 000, compared to R25 000 for a white household.
- The total annual spending power of the black middle class is R420 billion, compared to R320 billion for the white middle class.

Key Insights about South African Middle Classes

By comparison with Brazil and India, middle class growth and social mobility are inhibited. Large numbers, mostly the unemployed and poor, are not able to benefit in a situation of low growth and low levels of job creation from expanding economic opportunities. While benefitting from some transfers and public services, they lack access to good infrastructure, property rights in rural areas, job opportunities, decent health care, and good schooling. The dire state of the education system especially stands in the way of a more rapid expansion of the middle class. The poor find it difficult to access quality schooling, which often blocks capable children from poor households moving into middle class professions.

Under apartheid, despite heavy constraints on upward mobility, employment growth nevertheless promoted the black middle class. By contrast, the extremely high unemployment of the democratic era has been a major constraint. As a result, the principal instrument for black advancement has been access to good schools and universities and economic opportunities as well as affirmative action and black economic empowerment policies, but it could be so much more. As in India and other countries with similar situations, such as Malaysia, these policies have created racial or ethnic tensions. On the other hand, despite often complaining about affirmative action, the white middle class

The local middle class focuses on making a living and feels relatively disconnected from the political process

has been able to maintain and even advance its position due to a period of solid growth at a time when South Africa has faced a serious skills shortage.

Whites, coloureds, and Indians (the 'minority groups') have increasingly abandoned the ANC at the polls. Interestingly, the black (African) middle class is starting to do the same. In many respects the ANC has been a party of and for the middle class, without admitting it and without the middle class appreciating it. Thus, despite the ongoing importance of racial identities, a middle class alliance seems to be slowly emerging, driven by shared grievances, at the heart of which is a growing perception of the ANC as corrupt and nepotistic.

CONCLUDING REMARKS

Developing countries and defining 'middle classes'

Global experts, especially those associated with the World Bank and Centre for Global Development, are doing important work defining and plotting the rise of a middle class in developing regions. They focus largely on accurate, consistent measurements of income trends. Their interest is primarily linked to the idea that emerging middle classes are an 'indispensable force for more accountable and transparent governments'.²⁸

These are important concerns. However, what is striking about the discussions of analysts who live in the developing countries of India, Brazil, and South Africa is their concern to understand what is actually happening in these countries. There is understandably far less interest in global comparability and incomes alone and much more diversity within the broad middle class category and the implications of their rise other than just consumption. Thus, how local experts defined and applied the concept middle class depended on the level of their countries' development as well as the development challenges that most concerned them.

The table below summarises various proposed definitions of middle class. It must be borne in mind that these are based on rough calculations, using 2012 exchange rates, and do not necessarily factor in purchasing power parity ratios, which could, for example, result in a significant upward adjustment of some income levels.

SUMMARY OF DEFINITIONS

Country	Definitions	Monthly Per Capita Incomes	Size of the middle class as proportion of the population
Brazil	<i>Lower middle class</i> New entrants, often referred to as the 'new' or 'emerging' middle class	US\$161 and US\$244	16,4% (2011)

The principal instrument for black advancement has been access to good schools and universities and economic opportunities as well as affirmative action and black economic empowerment policies

Brazil	<i>Middle middle class</i> Those in the middle of the middle class income distribution	US\$244 – US\$355	17,9% (2011)
Brazil	<i>Upper middle class</i> Highest middle class earners, and often in ‘traditional’ middle class occupations	US\$355 – US\$564	14,6% (2011)
India	<i>Local Middle Class</i> Urban Indians earning between 75% and 150% of the median income	US\$86 and US\$171	12,5% (2012)
India	<i>Global Middle Class</i> Urban Indians with consumption and incomes similar to middle classes of developed countries	US\$300 and US\$3000	4,2% (2012)
South Africa	<i>Literal middle</i> Households in the middle of the income distribution,	US\$190 and US\$570	30,9% (2008)
South Africa	<i>Relatively affluent middle</i> Households with typical middle class wage earners	US\$700 and US\$5 000	29,9% (2008)

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Expanding the number of middle income earners in developing countries should be an integral part of promoting inclusive growth

People are moving out of poverty. This is important. The term middle class can mean many different things and be used to answer different questions. Differences within developing country middle classes are important and these too have consequences. The nature of this middle class, at least in Brazil, is different from what was traditional in developed countries.

Three major development challenges

Three major development challenges were identified in which middle classes were seen to play a pivotal role. It is worth discussing these separately as each affects the perspective on the middle classes. They are:

- Growing a large and dynamic internal consumer market;
- Reducing inequality and building a stable social order; and
- Strengthening the state’s accountability and capacity to deliver.

Middle Classes as Consumers

A major reason to promote middle class growth in developing countries is the impact it has on consumption. With higher incomes and a sense of themselves as upwardly mobile, new middle classes develop wider aspirations, can more readily access credit, and become consumers of durables and services that they could not previously afford. These developments have important implications for economic growth.

In Brazil, the phenomenal growth of the so-called new middle class appears to be associated with a greater propensity to buy durable goods. Brazil’s economists are hopeful

that this large group of new consumers holds the key to future growth. The shift to internal consumption is particularly important as the commodity boom – which underpinned so much of Brazil's recent growth – dissipates. Brazil cannot count on China to the same extent, so needs to try and re-orient production towards a large, growing internal market.

The challenge, though, is the extent to which this new, relatively poor income group has financed consumption via loans. There have been dramatic improvements in accessibility and affordability of loans for the poor but, as economic conditions tighten, many at the bottom of the middle class income group find it harder to meet debt obligations. Household debt was equivalent to 20,2 per cent of disposable income in 2005. This had already risen to 41,3 per cent in 2011²⁹ and is feeding into a growing sense of discontent.³¹

Despite its relative poverty and the small proportions of the population who form part of the global middle class, India's scale and economic potential create massive opportunities for market expansion. If the projections of a recent McKinsey Institute study are to be believed, and assuming that India can overcome its current growth challenges, income levels will almost triple over the next 2 decades, and India will climb from its position as the 12th-largest consumer market today to the world's 5thlargest by 2025. The same study claims that by 2025 over 23 million Indians – more than the current population of Australia – will number among the wealthiest citizens. Consequently, India's demand for luxury goods is pegged to touch US\$14,73 billion by 2015, from an estimated US\$8,21 billion in 2013.³²

By contrast, South Africans earning between US\$1 493 and US\$5 333 per month add up to a mere 7,2 million people. South Africa has a relatively small population (some 52 million compared to Brazil's just under 200 million and India's 1,2 billion), with a large proportion living in poverty. While the rising consumption habits of this burgeoning group have a noticeable and important impact on the economy, the internal market remains restricted and tiny by comparison with India and Brazil. This makes it imperative for South African companies to seek out markets beyond the country's borders (especially in the rest of Africa), which will not only expand the size of business operations, but also make it easier to benefit from economies of scale. This, in turn, will serve to lower companies' cost structures and make them more competitive internationally.

Middle Classes and Social Stability

Expanding the number of middle income earners in developing countries should be an integral part of promoting inclusive growth and strengthening social stability. A society without a middle class is likely to create stark and obvious differences between rich and poor. A significant and growing middle income group can serve as a buffer between 'rich and poor', as well as providing evidence to the poor that social mobility is possible. Brazil's middle class growth is part of a broader process that has brought down inequality and reduced poverty. Between 2001 and 2011, inequality as measured by the Gini coefficient fell from 0.572 to 0.511, a significant change.³³ Boosting the proportion of Brazilians in middle income categories, lifting large numbers out of poverty, and reducing inequality from a very high base has demonstrated that more and more Brazilians can benefit from growth and modernisation. This has the potential to reduce feelings of exclusion, to eradicate clear distinctions between a small group of economic winners and many losers, and make Brazil a more stable country.

Emerging middle classes are an 'indispensable force for more accountable and transparent governments'

In South Africa the middle class is growing (between 2005 and 2010 by just under 4 per cent per annum) and becoming more racially balanced. More than 50 per cent of the middle class is black, although whites are still over represented in comparison to the small proportion they make up of the population. This is a considerable achievement but it is not enough. The major challenge is that inequality and poverty remain too high. Poverty has been reduced, but in 2011 nearly 38 per cent of the population lived below a poverty line of US\$172 per person, per month. As Visagie has pointed out, people in the middle class professions tend to be amongst the top income earners. Those in the middle of the income distribution are actually quite poor (earning at best R1 140 per person per month). The global middle class constitutes a small elite, and there is an insufficient buffer between them and the poor, which includes many in the so-called middle class. This presents a challenge for social stability.

Middle Classes and Democracy

Middle classes are frequently associated with demands for more representative governments, greater rule of law and expanding freedoms. As a recent observer said of African middle classes: 'They are your enlightened voters, they will support policies, and not just vote in terms of an emotional affiliation. They are the drivers of democracy.' Higher incomes enable people to move beyond survival and have time to get involved in protests or movements for better services. A rising middle class will therefore get more involved in political and social life. How governments manage this in democracies will be an important aspect of consolidation and stability.

However, we must be careful about assuming that all middle classes will automatically demand democratic reforms in the same way. To make sense of the ways in which middle classes impact on democracy it is important to understand how they relate to the state. Do they rely on it for employment, economic support or services and law enforcement? Or have they become more self-reliant, relying predominantly on private provision of security, health, and education? The middle classes most likely to impact positively on the state are those based in the private sector with the independence and motivation to demand better public services and less corruption. Middle classes that have given up on the state or depend wholly on the redistribution of state resources are unlikely to wage effective battles for democracy, growth, and value for money in state expenditure.

Nevertheless, in all three countries there are signs that middle classes are exerting political pressure to make the state more accountable and efficient. In Brazil, protests in June 2013 were, at least initially, dominated by middle class Brazilians demanding better public services and less corruption.³⁴ In India, middle classes have become increasingly mobilised in relation especially to corruption and sexual violence.³⁵ In South Africa, while middle class politics is still muted, the 2014 elections could deliver interesting new trends as increasing numbers of black middle class voters seek alternatives to the ruling ANC.

Middle classes in developing countries are difficult to pin down. They have a variety of dimensions and care must be taken before we read off economic and political outcomes merely from the income levels that people have achieved in a particular society. It is also not absolutely clear how best to promote the expansion of middle classes, although certain generalisations can be drawn. Despite these complexities, promoting middle class growth should be an important goal for emerging democracies.

A significant and growing middle income group can serve as a buffer between 'rich and poor', as well as providing evidence to the poor that social mobility is possible

Concluding remarks

Middle class growth is an important policy objective that may lead to a series of interlinked benefits: reduction of poverty, a more inclusive and stable society, and growing pressure on the state to be more efficient and accountable. For this growth to produce maximum benefits, it must emerge out of a dynamic development process in which opportunities are expanding and accessible to those who find themselves outside the middle class.

The accessibility of economic opportunities which lead to expansion of the middle classes depends on a number of critical elements.

Firstly, economic growth must be a priority for governments. A high growth strategy is the only effective way to meet the challenges that developing countries confront. By substantially and consistently increasing the size of their economies, developing countries build up the resources they can invest in services, infrastructure, and education, while also expanding the range and quality of available economic opportunities. Redistribution of income tends not to form the basis of middle class growth as it is not sustainable; has only limited benefits unless accompanied by the expansion of economic opportunities; and makes beneficiaries reliant on the state. It should be noted, though, that the nature of economic growth matters. State-dominated growth or growth that creates few jobs is far less effective than growth that promotes the rapid creation of formal jobs and is based on private entrepreneurship.

Secondly, it is vital to remove barriers to the expansion of opportunities for people stuck in poverty. For example, laws preventing the expansion of relatively low wage, unskilled jobs are inappropriate for countries that have large numbers of unskilled people in unemployment or outside the job market. The nature of economic growth is therefore an important issue. In these three developing countries, and many others, absorbing more and more people into the formal economy is vital. In addition, it is important to encourage people to move out of rural areas and into effectively managed cities.

Thirdly, it is important for the state to ensure the supply of essential services, healthcare, and quality education to the poor. How this is done is important. Good quality services are essential to strengthen the capabilities of poor people and so enhance their ability to pull themselves out of poverty and into the middle class.

In laying the groundwork for effective, ongoing middle class growth, all three countries need to find ways of re-stimulating the growth of their economies in the current difficult global environment. To do this, governments need to implement reforms that will open up sectors of the economy to new sources of entrepreneurship and innovation.

The fight against poverty, achieving inclusive growth, the reduction of inequality, and building a society with a stable middle will all emerge from pursuing one goal: growing the middle class. Prioritising this shifts how countries think about promoting development. Rather than just measuring poverty and then finding ways to increase incomes above a poverty line, the more dynamic focus on assessing progress towards middle class status requires a detailed understanding of what holds people back in their attempts to

Middle classes that have given up on the state or depend wholly on the redistribution of state resources are unlikely to wage effective battles for democracy

progress. Once these barriers are identified, remedies need to be put in place to create an environment in which people are able and willing to pursue the economic opportunities available. In addition, development policy should focus on ensuring that the economy generates opportunities accessible to those who find themselves in poverty. At the same time, additional interventions should ensure that everyone has access to the education and health services that they need to make them, and their children, more productive and entrepreneurial individuals, allowing them to progress into the middle class and up the income ladder.

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