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Suspended animation

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The recession may bring middle-class growth to a halt for a while—but not for long

OVER the next two or three decades, an expanding global middle class could boost economic growth and encourage democracy (or at least more liberal politics). It could also press for global public goods, such as tougher limits on greenhouse-gas emissions (middle-class people are more inclined than others to worry about the environment). But the main question about the middle class in the immediate future will be different: how badly will it be hit by a global recession?

Since the Asian currency crisis of 1997-99, the middle classes in emerging markets have known nothing but success. For most of them even that currency crisis was just a blip. China's and India's mass middle classes have seen only uninterrupted growth. But the period of rising prosperity is coming to an abrupt end.

Economic growth is slowing much more than anyone had expected only a few weeks ago. China's GDP growth more or less came to a halt in the last quarter of 2008 and many economists are forecasting the feeblest expansion for 20 years in 2009. At the end of 2008 exports from emerging markets were falling at an annual rate of more than 10%. Industrial output is collapsing and many Asian countries face the worst recession since 1997-99.

Against that unpropitious background, three emerging-market giants face elections in the next two years: India, a parliamentary vote by May this year; Indonesia, congressional and presidential votes in mid-2009; and Brazil, a presidential election in October 2010. Other big middle-income countries with elections in the next two years include Argentina, Chile, Colombia, Hungary, Poland, South Africa and Ukraine. China's rulers too have long been worrying about retaining the support of the middle class. Anniversaries in 2009—the 20th of the Tiananmen Square uprising; the 50th of the crushing of Tibetan independence—may provoke protests.

A reversal of middle-class fortunes could have serious effects. As this report has argued, the new middle classes contribute a lot to a country's growth, efficiency and equity—as consumers, as investors in "human capital" and because they engage in a wider range of economic activities than the rich and are more likely to create jobs than the poor. They also tend to promote liberalisation and, indirectly, democracy by moving their countries away from the politics of patronage. All these good things would be at risk if they were hurt by recession.

Magnum Photos

A better class of kitchen sink

There are several reasons for thinking the middle could be more vulnerable to the global recession than the extremes. Though the rich are the most exposed to losses on equity and financial markets, they also have a much greater capacity to absorb the blows, since they have more, and more diversified, assets. As for the poor, the very things that have prevented them doing better in the past 15 years—distance from world markets, lack of exposure to trade—might now come to their rescue. Poverty cushions them from the losses as well as the gains of globalisation.

In contrast, the middle class faces problems across the board: jobs (its members are more likely than the poor to be employed by companies that depend on exports or outsourcing); assets (they have invested in property and shares but house prices and stockmarkets have crashed); and finance (they have put their money in banks or have borrowed from credit companies that are exposed to global markets).

The main relief for the middle class is that many of its members have jobs in the public sector, which can resort to deficit spending. For the moment, therefore, the usual rule that a middle class based on the private sector tends to do better than one which feeds off the public sector may have been suspended.

A second reason for thinking that the middle class may be especially vulnerable is that the largest group within it is dangerously close to the poverty line. This report has argued that in recent years the middle class has surged, not merely expanded along with economic growth. As the fat part of the bell curve of income inequality moves beyond the middle-class threshold, huge numbers are lifted out of poverty. Yet many of them are still perilously close to the borderline.

Slippery slope

Martin Ravallion of the World Bank separates the developing-world middle class (those on $2-13 a day) into upper and lower tiers, with $9 a day as the dividing line. On his calculations, the numbers in the upper tier ($9-13 a day) rose by only 95m between 1990 and 2005, from 139m to 233m. Yet the number of middle-class people as a whole during that period increased by 1.2 billion, so more than ten times as many people joined the lower tier ($2-9 a day) as joined the upper. Most of them cluster at the very bottom. In 2005, estimates Mr Ravallion, one person in six in emerging markets was living on $2-3 a day. Such people have only a tenuous hold on middle-class status and risk slipping backwards.

A third reason for worry, argues Homi Kharas of the Brookings Institution, is that the middle classes might “misinterpret the recession”. For most of them, the lesson of the past 20 years has been that good things happen when a country opens up and bad things occur when it turns inward (eg, China’s Cultural Revolution or Brazil’s military coups). But a period in which emerging countries import recession from rich ones could change people’s attitudes.

In Russia the instability of the Yeltsin years convinced many that the country would be better off if it became more self-reliant. And in 2007-08, as food prices spiked, governments around the world, including the emerging markets, reacted by imposing export bans, export taxes and many other forms of trade protection.

Moreover, some countries seem more vulnerable to a global recession than others. Brazil and Russia are sensitive to raw-material prices, which are falling. The World Bank forecasts that the volume of international trade will decline in 2009, for the first time since 1982. This will hit countries heavily dependent on exports. Most large emerging nations have built up foreign-exchange reserves and cut their external debts, which will provide a measure of protection. But that is not true of eastern Europe, where reserves have been flat and external debts rising.

For all these reasons, it seems more likely that the new middle classes will be victims of recession, rather than the people to haul the world out of trouble, as the World Bank hopes. But the bigger question is whether the slump will undermine the essential qualities of middle-class behaviour—the propensity to save, to invest in the children's education and so on. The answer to that depends in part on how long the slump lasts. Most developing countries, including the two largest, China and India, expect some growth in the next two years, albeit much less than in 2000-07. Moreover, retail sales tell a slightly less gloomy story and may be better indicators of the mood of the middle class than GDP growth. In China and India they held up surprisingly well in 2008, suggesting that consumers have not gone into their shells.

Panos

The way it was, and will be again

Much will also depend on public policy, especially in the emerging-market giants. The reactions of the Chinese and Indian governments have been "mature", says Eswar Prasad of Cornell University. In November 2008 China produced a multi-billion-dollar government-spending plan which aims to restore GDP growth to over 8% in 2010. It has plenty of room to increase domestic demand. In India, the picture is more mixed: the country has imposed some restrictions on goods imports but has also liberalised its financial sector.

In general, support for globalisation among the Chinese, Indian and Brazilian middle classes does not yet seem to be waning, as it has done in Russia. That may be because so many people have benefited over the past 15 years that it will take a lot to persuade them to back any radical departures from the way things are. Certainly, few observers expect the coming elections in the three biggest emerging countries to bring drastic changes. India's is likely to produce yet another relatively weak coalition government, led by one of the two main parties. Because of Indonesia's complex electoral system, the presidency is most likely to go to the current incumbent or his predecessor, both from secular, mainstream parties. Brazil's election is too far away for a sensible forecast to be made, but since the incumbent president (who is prevented by term limits from standing again) has an 80% approval rating, a rebellion against the status quo looks unlikely.

See you in a couple of years

This survey has argued that, to misquote Scott Fitzgerald, the middle class is different: meritocratic, thrifty, individualistic, committed to education. Some of these attributes and attitudes may be permanent, or at least only partially subject to the vagaries of the economic cycle. Admittedly there is little hard evidence from emerging markets to support or contradict this assertion. But the middle classes in America and Europe do not seem to have changed their outlook radically during slumps. People have usually sought to keep their children in private education as long as they can, for example, cutting back on consumption instead. The spread of the internet and mobile phones may also have reinforced the middle class's fear of being cut off from the technology and information on offer in the rest of the world.

So if—perhaps a big if—the global recession lasts no more than a couple of years, it seems reasonable to expect the engine of middle-class formation to start humming again when growth picks up. There will be another portion of Maslow's pyramid to climb, another political system to change, another step to take towards a global middle class. Until then, there will be a pause, but not an end, to what Marx called "the most revolutionary part" the middle class has played in human affairs.