

# The Economist

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A photograph of Barack Obama hugging a woman from behind. He is wearing a light blue checkered shirt and has his eyes closed in a moment of affection. The woman is wearing a red and white checkered dress. The background is a bright, overcast sky.

**Now, hug a  
Republican**



## Also in this section

## 53 Recalling Lima's mayor

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## Class in Latin America

## The expanding middle

## A decade of social progress has created a bigger middle class—but not yet middle-class societies

JAMMED onto a spit of land that juts into the azure Atlantic near the centre of Recife, in Brazil's north-east, Brasília Teimosa was until a couple of decades ago a favela of wooden fishermen's huts. Now its streets are lined with brick houses, some of three stories and clad in decorative tiles but others jerry-built. It has seafood restaurants, shops and a couple of bank branches, but also piles of uncollected rubbish. Many marketing types and economists would hail its residents as members of Brazil's burgeoning "new middle class", who have become avid consumers.

That is not how Francisco Pinheiro, a community leader who was born in Brasília Teimosa, sees it. "Economically, it's much better off than it was," he says. "But a middle-class person is someone who lives in Boa Viagem"—a smart beachfront residential suburb close by—"with a car, an apartment and an income of 3,000 reais (\$1,500) a month." In Brasília Teimosa, he adds, the majority earn less than two minimum wages (\$613)—often shared among a family of four or more.

As it happens, Mr Pinheiro's finely-tuned sense of social class fits neatly with the definitions deployed by the World Bank in a ground-breaking new study\*. Having crunched the numbers from household surveys across the region, it reckons that Latin America's middle class expanded by 50%, from 103m to 152m, between 2003 and 2009. That represents extraordinarily rapid social progress. But it

means that only 30% of the region's population is middle class (see chart). A larger group has left poverty, but only just, as have many of those in Brasília Teimosa.

What it means to be middle class is a matter of definition and debate. Sociologists and political scientists define the middle class according to education, occupational status and ownership of assets. Economists, by contrast, tend to see income as determining class.

The bank's economists nod in the direction of sociology by defining the middle class in terms of economic security. They reckon that for a Latin American household to have no more than a 10% chance of falling back into poverty over a five-year period requires an income of at least \$10

per person per day (at purchasing-power parity exchange rates). They define those with an income of over \$50 per day—just 2% of Latin Americans—as rich. The bank calls those with a daily income of between \$4 and \$10, "the vulnerable" or the "lower-middle class". They make up the largest group. The proportion of Latin Americans living in poverty—defined as a daily income of less than \$4—has fallen from 41.4% in 2000 to 28% in 2010.

This social progress is the result of a rare combination of faster economic growth, low unemployment and falling income-inequality. Income per person in Latin America grew at an annual average rate of 2.2% between 2000 and 2010, a step up from the previous two decades. And income inequality fell in the same period in 12 of the 15 countries for which data are available (though Latin America continues to rival southern Africa as the world's most unequal region). Re-distribution, through conditional cash-transfer schemes and other social programmes, has helped to reduce poverty. But most of the expansion in the middle class has come from faster growth.

In all, the bank reckons that two in five Latin Americans were upwardly mobile between 1995 and 2010, though few made the leap directly from poverty to the middle class. Those who moved up tended to have more years of schooling. But the bank cautions that Latin America remains a land of unequal opportunity: children whose parents had few years of schooling tend similarly to be less educated than their middle-class peers.

One ray of hope is that over the past 15 years, the average number of years of



\* Economic Mobility and the Rise of the Latin American Middle Class. By Francisco H.G. Ferreira, Julian Messina, Jamele Rigolini, Luis-Felipe López-Calva, Maria Ana Lugo and Renos Vakis.

▶ school attendance among young Latin Americans has increased sharply, reducing the educational gap generated by social class. But the difference in the quality of the schools attended by the rich and the poor is bigger in Latin America than anywhere else. Higher education is expanding, too, and tends to be a passport to the middle class. But its cost—not least in job income foregone—deters poorer students, making student loans vital.

### Size matters

Some other recent studies have argued that Latin America's middle class is much bigger than the bank finds. A 2010 study by the OECD, a group of mainly rich countries, reckoned that 275m people in the region—or just under half the population—were middle class. The OECD used a relative definition, counting all those whose income was between 50% and 150% of the median. But the median income varies widely across Latin American countries, making it hard to put together a regional picture.

Marcelo Neri, a Brazilian economist, has argued that the middle class now makes up more than half his country's population. Like many Brazilian analysts, he divides society into five groups and shows that the middle group ("Class C") has grown from around 35% of the population to about 50% since 1990. Class C is defined as those with daily incomes between \$6.10 and \$26.20. Many of them are in the bank's "vulnerable group".

Why does this debate matter? Firstly because most people would agree that it is better to be middle-class than poor. Turning her country into "a middle-class society" is one of the often-stated goals of Dilma Rousseff, Brazil's president. Secondly, it is widely assumed that a bigger middle class brings a more cohesive and stable democracy, less prone to populism and more intolerant of corruption.

But the political implications of Latin America's growing middle class are not yet clear. Some commentators have argued that the "new middle class" is entrepreneurial, is partly drawn from the informal sector, and will be hostile to statism and high taxes. (In fact, the bank finds that the middle class tend to be salaried employees of private companies.) Some of them send their children to private schools that have sprung up in many once-poor communities. But other voices dissent. André Singer, a Brazilian political scientist, argues that, rather than a new middle class, the rise in incomes and jobs of the past decade has produced "a new proletariat", drawn from people who were previously too poor to constitute a coherent social class.

Augusto de la Torre, the World Bank's chief economist for Latin America, points out that the middle class could form a constituency that pushes the state to provide

better quality services. Or it could choose to opt out of state services, which could worsen as a result. That matters if the growth of the middle class is to be sustained. Keeping up the progress will require the right public policies. As the boost from high commodity prices and the global liquidity glut ebbs, sustaining economic growth will demand more reforms, warns Mr de la Torre. Preventing the "vulnerable" from slipping back means helping them remain in work, with training and information programmes. Creating equality of opportunity requires investment in better schools and health care. But in many Latin American countries (though not Brazil and Argentina), taxes are too low to provide good-quality services.

Encouraging though Latin America's social progress is, sustaining it is vital. As Francis Fukuyama, a political scientist at Stanford University has pointed out, it is too early for Latin America to count these gains as permanent. "For a true middle-class democratic consensus to emerge, this group needs to constitute a clear majority of the population," he argues. Otherwise it may be tempted to ally with the rich to block reform. But at least Latin America is half way there. ■

### Peru

## Mayor and mafias

LIMA

### A referendum too far

**I**n 1994 Peru's Congress approved a law allowing recall referendums against mayors. Its proponents no doubt thought this would be a way to curb corruption. Yet this instrument is now being used by a murky coalition to try to eject Susana Villarán, the mayor of Lima, seemingly because she has tried to apply the law and crack down on corruption.

Ms Villarán, a moderate, Catholic leftist, was narrowly, and unexpectedly, elected to the job only two years ago. She has not proved to be an outstanding mayor: her party is small and she had no experience of managing a large organisation. But neither has she done an especially bad job: she is honest, and she has slowly proceeded to impose some order on one of Latin America's most chaotic capitals, home to around 8.5m people.

She began by cancelling fat consultancy contracts which proliferated under her predecessor, Luis Castañeda. She proceeded to reorganise the routes of anarchic private minibuses to complement a modern rapid-transit bus system which she plans to expand at a faster pace than Mr Castañeda

managed during eight years in office. Despite several disruptive bus strikes, she seems to be winning that battle.

She has also pushed forward with moving Lima's wholesale market from La Parada, an open-air warren of streets, to a purpose-built site begun in the 1980s. The move involves regularising an informal market with a criminal fringe. Mr Castañeda shrank from it. Ms Villarán has faced down violent resistance. Four people were killed and dozens injured in late October when hired thugs attacked police at La Parada; televised images showed the mob savagely beating a policeman who fell from his horse.

While this was going on, the electoral authority decided that Ms Villarán's opponents had fulfilled the requirements for a referendum to recall her, reversing an earlier ruling. Some lawyers thought the authority's decision suspect. The vote will be held on March 17th. Bizarrely, the referendum might potentially oust the 39 other members of the city council, leaving the 40th in the 2010 ballot, a nonentity, as the interim mayor, pending a fresh election.

At best this looks like a colossal and unnecessary distraction from the task of governing Peru's capital. But the mayor's supporters see a more sinister process at work. Mr Castañeda, who has been a fierce critic of Ms Villarán, supports the recall effort. A judge is investigating him over a payment of 36m soles (\$13.8m) to a shadowy waste-management company. He claims he is the victim of a witch-hunt by Ms Villarán.

When he was mayor, Mr Castañeda spent public money plastering the city with billboards publicising his works. Ms Villarán has eschewed such self-promotion. Partly as a result, her approval rating has languished at around 25%. But some of her political opponents are now rallying to her, as are many ordinary *limeños* who fear that ousting her is a recipe for chaos. Contrary to the desire of its proponents, the referendum just might turn into an opportunity to defend the rule of law against unscrupulous demagoguery by keeping Ms Villarán in office. ■



Villarán battles on