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## An eye on the middle class

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# The Current Column

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## An eye on the middle class

Bonn, 27 February 2012. For the last 15 years the world has seen a quiet revolution: more than one billion people have joined a rising global middle class. These are not rich people by Western standards, but they have emerged out of poverty and are able to spend some of their time and money in things other than simply surviving. The rise of this middle class of global proportions has been overwhelmingly due to rapid economic growth in China and India, and its size is projected to increase further. Today, about half of the world's middle class lives in Europe, North America and a few other wealthy countries. By 2030, about two thirds of the estimated 5 billion middle-class citizens in the world – more than 3 billion people – will live in emerging economies, especially in Asia.

Why is this revolutionary? The middle class is a historical anomaly. Most men and women who have ever lived have been very poor. Marx and Engels, two first-hand witnesses of the birth of industrialization, wrote that “society as a whole is increasingly split up into two great hostile camps, into two great classes directly facing each other: bourgeoisie and proletariat.” Yet something unexpected happened. Salaries began to rise, and workers eventually got richer, not poorer. Instead of a great split, the industrial society saw the consolidation of a large and prosperous middle class.

This has been one of history's success stories. Today we complain about the sorry state of our economy or the ineptitude of our political leaders; but in historical perspective the existence of a society – such as Germany's – in which most people have decent health, education, free time and a political voice is actually a rare triumph.

Until recently, this success had been limited to a rather small number of people in a few countries. The world population, for the most part, has been and continues to be poor. But things are changing: the success story may be taking planetary proportions. Why does this matter when there are billions who remain poor? Let me sketch out some of the reasons why I think we should care about

the rise of a global middle class – and why we should do so now.

First, a big middle class can be an engine of economic growth. It is part of a virtuous cycle in which wealth creates more wealth, and prosperity can be sustained in the long run. From this point of view, the importance of a large middle class transcends the middle class itself – it can positively affect the poor. By paying taxes, the middle class effectively funds the welfare and social protection programmes that tend to benefit the poorest.

Second, people in the middle class are usually well educated and tend to become conscious political actors. A strong middle class is likely to benefit from, and thus support, the rule of law, an independent judiciary and in general greater political transparency and accountability. In short, a strong middle class can generate better institutions.

But, just as it has benefits, the growth of the middle class brings about challenges. The success story has had a high environmental price tag. Improving the life of millions of people has been possible through intensive consumption of natural resources and great pressure on the planet's regulating processes. Climate change is perhaps the best known side-effect of our comfortable lifestyle, but it is not the only one. What will happen when an extra two or three billion consumers begin to demand more Big Macs, Audis, and cruises in the Caribbean? If the growth of the global middle class replicates the same pattern of environmental degradation that we have seen in the West, we should be very worried indeed.

The potential environmental consequences of new mass consumers are not the only reason why the expansion of the middle class is a global concern. As more people in the developing world become wealthier – especially in China and India – within our lifetimes the centre of gravity of the world economy will shift to Asia. Consider this: by 2030, while the population of Europe will probably decline, the middle class in India is projected to

swell from 50 to almost 600 million people. That is more than the current population of all the European Union! What will this mean for geopolitics and global governance?

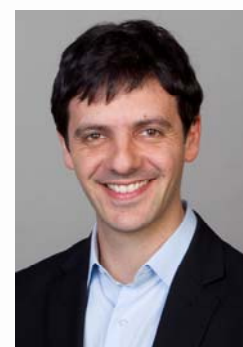
The answer, frankly, is: nobody knows. We need to be careful about enthusiastically extrapolating from previous experience. To begin with, the global middle class actually looks quite different from what we typically regard as middle class in the West. For example, a typical middle class income in Germany might be around €16,000 per person per year. Yet our definition of the global middle class uses much lower thresholds – so that someone in China or in Brazil might be considered middle-class if he or she earns as little as €3,500 every year. The global middle class consists, at least for now, of people who have only crossed the poverty line.

Perhaps most importantly, the world is a complex and diverse place – and our knowledge about it is highly biased. What we think of as universals of human behaviour may turn out to be simply the eccentricities of a small and unusual sample: the Western world, and specifically the northern half of it. For example, even though there are enormous economic interests at stake, we still know

relatively little about how new middle class consumers will behave. Will the new middle class want to buy their produce in supermarkets – as they tend to do in Rio de Janeiro – or will they insist on getting it in street stalls, as locals still do in Beijing? Will they continue to use public transport or prefer to drive cars?

The future political and cultural role of the new middle class is even more uncertain. China and India are clear examples of how incomes can converge under radically different political systems and social institutions. Is a wealthier China likely to push for political reform, or will the growing middle class be reluctant to give up the stability of a one-party system? Will greater incomes in India strengthen or weaken the traditional importance of family ties and values?

We have no template, no prior experience to answer these and many other questions. For development policy, the rise of the middle class poses a rather unexpected challenge. Until now the business of development has been mostly about fighting poverty; in our changing world, the new challenge may well turn out to be the problem of managing wealth.



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