The Scary New Rich

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The middle classes have always been the bulwark of society. Aristotle believed they were democracy's secret weapon—the protectors of social values, the moderators of political extremism, ramparts of reason over fiat, and believers in a society run by laws instead of by strongmen. They have also been the engines of economic growth, setting the stage centuries ago for the expansion of capitalism and global trade, and continuing through the ages to snap up every new gadget or service in sight. Now, with the Western middle classes sinking into debt and distress, many economists look to a new emerging-market middle class as the potential foundation for a new age of global safety and prosperity. As China, Brazil, Russia, Turkey, India, Indonesia, and other large developing nations became more prosperous, it was always assumed that they would become more like the suburbs of Washington or London—liberal, democratic, market-friendly bastions not only of Western-style consumerism but also of political liberty. With time and wealth, "they" would become just like "us."

What, then, to make of recent news events like the Brazilian middle class applauding more state control of the oil industry to keep out greedy foreign firms, or the continuing popularity of Russian autocrat Vladimir Putin among the Russian middle class, now 78 percent of the total population? Then there's the middle-class support for the rise of conservative Islam in Indonesia, which has pushed through a new anti-pornography law and may soon create halal cities, where all food must be served according to strict Islamic rules. These new spins on middle-class values mix, in many places, with distinctly anti-Western forms of nationalism. The increasing patriotism of affluent young Chinese has created an industry for popular books like "The China Dream," which urges China to launch a military buildup in preparation for a coming conflict with the U.S.

The truth is that "they" are not becoming just like "us." The global middle class is rising faster than expected, in numbers and in wealth. Last year 70 million people joined the emerging-market middle class, with incomes between $6,000 and $30,000. They have become "the story of the decade," says Goldman Sachs's chief economist Jim O'Neill, and will surpass their Western peers in global spending power within two decades. Morgan Stanley Asia chair Stephen Roach believes that in five to 10 years, the emerging-market middle class in Asia alone could pick up the slack left by overspent American consumers. Already, emerging markets are bolstering the balance sheets of many Western firms. The Chinese bought more cars than Americans did last year, and India has as many Internet users as the U.S. does. By 2030, more than nine of every 10 mobile phones will be owned by people in the developing world, with India and China leading the way. Coca-Cola recently forecast a doubling of worldwide revenues to $200 billion over the next decade, thanks to another 1 billion people expected to join the middle class by 2020.

But converging incomes are not yielding shared values. The emerging bourgeoisie is a patchwork of contradictions: clamorous but rarely confrontational politically, supporters of globalization yet highly nationalistic, proud of their nations' upward mobility yet insecure and fearful they will fall back, fiercely individualistic but reliant on government subsidies, and often socially conservative. Many of the aspiring elite seem willing to let the powers that be—whether authoritarian governments or elected ones—call the shots as long as they deliver the spoils of growth. And command-and-control states, like China, are now doing that better than suburban America. A 2009 Pew study on the global middle class found that its members are generally supportive of democratic ideas like free speech and competitive elections. Yet experts at Pew and elsewhere say they are often willing to sacrifice those
ideals for prosperity. Newly unfettered from poverty, they are also unwilling to take on much political risk. In Brazil and Russia, the middle classes are more worried about freedom from hunger than freedom of speech, and distrust virtually all democratic institutions. And in China, rural people who still see little benefit from their nation’s economic boom are more likely to support democracy than the urban middle classes, who now make up three quarters of the Communist Party cadres. Even in countries that are democratic, the newly prosperous may look quite different from their Western peers. In Turkey and Indonesia, much of the middle class consists of devout Muslims who do choose to vote—and to wear Islamic headscarves.

In the last 10 years, the Western idea that political freedom is a prerequisite for economic freedom has lost credibility in the East. As the West declines in economic and political clout, and Eastern models begin to deliver prosperity and stability, the link is fraying. More Russians today support “a strong leader” over “democracy” than did 10 years ago—no wonder, given the plunge in living standards that followed the collapse of the Soviet empire. Russia’s new middle class is among the staunchest supporters of the Vladimir Putin–Dmitry Medvedev continuum, for the simple reason that they have the most to lose. “Like the rest of society, the middle class have accepted the paternalism of Vladimir Putin’s government and remained apolitical and apathetic,” says Masha Lipman of the Moscow Carnegie Center.

Ditto China, where the middle class was much more likely to favor political liberalization prior to the 1989 Tiananmen riots than it is today. Democracy might bring freedom, but it could also bring chaos. In China and Brazil, which have fared well through the financial crisis, there’s a growing sense that they don’t need outside advice on how to structure their societies, thank you. "The Asian crisis was a turning point in that sense," says Brookings Institution senior fellow Homi Kharas, who studies the new global middle class. "These countries began pursuing liberalization in their own way, at their own pace, and they've done well. Now they see their success as the fruit of their own efforts," even though it was attained under global systems of free trade and finance set up by the West.

Emerging-market leaders understand that the Western system created the worldwide boom of the last quarter century, but that ended with the collapse of Lehman Brothers 18 months ago. Now the boom is mainly in emerging markets, and their leaders will increasingly choose to alter Western models to their own national specs. More state control rather than less will likely become the norm, as long as countries like China and Brazil continue to do well. The emerging-market giants—South Africa, Turkey, and others—will also be more aggressive about standing up for themselves. "In China, for example, the younger, richer generation has more hubris and are more likely to take risks, and increasingly they are the ones in charge," says John Lee, a foreign-policy fellow at the Center for Independent Studies in Sydney. "They’ll push harder to defend the country’s interests in areas like trade, resource acquisition, and foreign policy." The middle class in emerging markets is likely to be increasingly at odds with peers in the West, but also with itself. Morgan Stanley Investment Management's emerging-market head, Ruchir Sharma, believes old rivalries will simply be replaced by new ones: Indians, for example, are becoming less obsessed about Pakistan and more worried about the rise of China. Likewise, old friendships between countries like India and Russia will cool as the countries develop in different ways and see themselves as having less common ground.

It’s also worth remembering that the new middle classes are psychologically driven by an odd mix of pride and insecurity. Close to 30 percent of Brazil’s new middle class owes its livelihood to the informal market, where income is irregular, safety nets are nonexistent, and opportunity for entrepreneurship is limited. Many have borrowed their way to higher living standards, one reason perhaps that 53 percent say they live in fear of unemployment, loss of income, or even bankruptcy. They have benefited from the explosion of private schools but have seen the overall quality of education plummet, eroding one of the classic middle-class paths to social mobility. "We still don’t know how sustainable the rise of the new middle classes will be," says Brazilian political scientist
Amaury de Souza. And to the extent that the new middle class is precarious, its ability to effect political change will be, too. Indeed, some development economists argue that the poor will be a greater force for social change. There is no middle-class parallel to the broad push for land reform among rural leaders in China. They are the agitators, unwedded to the status quo. The developing world's new consumers may have unleashed tremendous new energy at the checkout counter. But their ability to become a force for better government, greater freedoms, less corruption, and more economic liberty is much less certain. "They" have a very long way to go before becoming "us."

With Owen Matthews in Moscow and Kristin Minogue in Beijing

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