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The in-betweeners

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A lot is expected of the middle class in emerging economies. But they just want a quiet life

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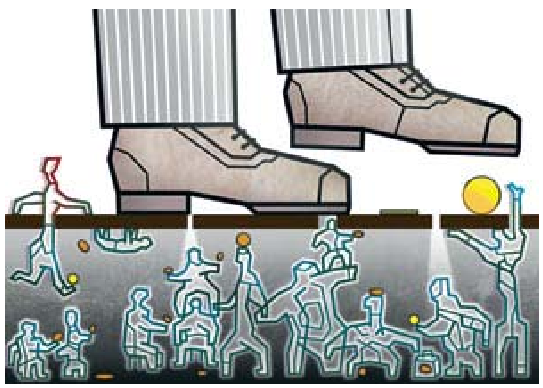

TWO jars of chickpeas, 20 bars of soap, three packs of cigarettes and six sachets of shampoo—all these items and more are in stock at a village store five hours away from the Indian city of Hyderabad. It is the leanest of inventories, and yet it supports great hopes. Combined with a scrap-metal business, the store is just enough to lift its owners into the ranks of India's fabled middle class. They and their comrades in Latin America, Africa and emerging Asia belong to a vague demographic that no one can define precisely, but which everyone agrees is vital to stability and prosperity in the developing world.

“The virtues of a middle class are those which conduce to getting rich—integrity, economy, and enterprise,” observed John Stuart Mill after the industrial revolution. Do the new middle classes share those virtues? In a recent paper* Abhijit Banerjee and Esther Duflo, two economists at the Massachusetts Institute of Technology, have tried to find out. As well as visiting village stores outside Hyderabad, they drew on household surveys in 13 developing countries, from Mexico and Panama to Tanzania, South Africa and East Timor. The result is a sequel to their 2006 portrait of the lives of those living on about $1 a day.

The two authors define the middle class abstemiously, as those who spend $2-10 a day, measured in 1993 purchasing-power-parity dollars. In other words they have about the same command over goods and services as Americans spending $1,050-5,200 a year in today's money. If this seems too austere a standard, note that 88% of the rural Indians in their surveys lived on less than this, and that the middle-class Britons who won Mill's praise earned little more.

Do the emerging middle classes exhibit the temperance and economy that Mill celebrated? Like good burghers everywhere, they invest in their health and their homes, the surveys show. Most also spring for a television, and the share of their spending devoted to entertainment rises steadily with income. To be middle class is to have licence to indulge more freely in creature comforts. To the very poor, on the other hand, even drinking tea is a wasteful extravagance.

And what of enterprise? Does the spirit of capitalism burn in the new middle classes? They are often portrayed as “entrepreneurs in waiting”, the authors note, ready to transform their lives and their economies if only they can get secure title and ready capital to underwrite their businesses. “It is impressive how pervasive is the view that the poor are sitting at the cusp of a huge opportunity to get much richer—by now it's almost an axiom,” says Mr Banerjee.

A nation of shopkeepers

In fact, the urban middle classes are no more likely to own a business than the poor. (In the countryside, the pattern is mixed.) And even when they own one, their hearts are not really in it. Their ventures are tiny, often one-person operations doing mostly what their neighbours do. In Hyderabad and its environs, 21% of the middle class run general stores, 17% tailor-shops, 8.5% telephone booths and 8% sell fruit and vegetables. Others sift through rubbish for items of value, sell milk or collect dung. The businesses turn a modest profit, but only if the value of the owner's own time is not counted.

The businesses are short of capital. The threadbare inventory the authors discovered in the village store outside Hyderabad is only one example. Few businesses own machinery, or even a bicycle. The two economists cite an experiment, sponsored by the World Bank, which randomly bestowed about $100-200 of extra capital on tiny businesses in Sri Lanka. The annualised return on the money was an impressive 94% on average.

If their businesses are so starved of capital, why do the middle classes not invest more in them? Borrowing, as the proponents of microcredit point out, is expensive. But there is nothing to stop households accumulating capital by saving. After all, they defer gratification enough to “invest” in their homes and TV sets, so why not in their enterprises?

The authors speculate that the new middle class is not an aspiring bourgeoisie of petty businessmen. They are, instead, aspiring salarymen. To be middle class is to draw a pay packet weekly or monthly, rather than daily or hourly. An hour from Udaipur, another Indian city, the authors spotted well-tended homes with motorcycles in the courtyard and children in starched school uniforms. Sure enough, a zinc factory was operating nearby.

For those who cannot get such regular jobs, a petty business is the next best thing. The hours are long, but not very intense. The storeowner outside Hyderabad chatted happily with the pair of inquisitive economists for two hours. Only two customers showed up in that time. One bought a cigarette, the other a stick of incense.

This segment of the middle class may lack the gumption to expand their businesses, or perhaps they know something about their prospects that their cheerleaders do not. Their businesses might benefit from a little more capital: some extra jars of chickpeas or sticks of incense. But once such businesses get beyond a certain size, the authors argue, the returns to scale diminish quickly. A village can support several identical stores, but not if they get too big.

Adam Smith, who described Britain as a nation of shopkeepers, had a keen sense of what could be expected of the middle class. The prudent man, he wrote, “does not go in quest of new enterprises and adventures, which might endanger, but could not well increase, the secure tranquillity which he actually enjoys.” Cup of tea, anyone?

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* Available at econ-www.mit.edu/files/2081.