

## Half the nation, a hundred million citizens strong



EVER since it was first spotted amid the factory smoke of western Europe's industrialising nations, the middle class has borne the hopes for progress of politicians, economists and shopkeepers alike. It remains hard to define, and attempts to do so often seem arbitrary. But in Brazil, the middle class describes those with a job in the formal economy, access to credit and ownership of a car or motorbike. According to the Fundação Getulio Vargas (FGV), a research institute, this means households with a monthly income ranging from 1,064 reais (\$600) to 4,561 reais. Since 2002, according to FGV, the proportion of the population that fits this description has increased from 44% to 52%. Brazil, previously notorious for its extremes, is now a middle-class country.

This social climbing is a feature mainly of the country's cities, reversing two decades of stagnation that began at the start of the 1980s. Marcelo Neri of FGV suggests two factors behind the change. The first is education. The quality of teaching in Brazil's schools may still be poor, but those aged 15-21 now spend on average just over three more years studying than their counterparts did in the early 1990s.



The second is a migration of jobs from the informal "black" economy to the formal economy. The rate of formal job creation is accelerating, with 40% more created in the year to this July than in the previous 12 months, which itself set a record. Together with cash transfers to poor families, this helps to explain why—in contrast with economic and social development in India or China—as Brazil's middle class has grown, so the country's income inequality has lessened (see chart).

Entering the middle class brings a predictable taste for yogurt and other luxuries. But when shopping, middle-class Brazilians are more conscious of status than middle-class North Americans or Europeans. "These are people who may ordinarily serve others," says Nicola Calicchio from McKinsey, a consultancy, "so being attended to by someone is very important to

them." Middle-class Brazilians may avoid the glitzy stores that cater to the rich, but they do not want their surroundings to look cut-price either. That may be true elsewhere, too, but a sensitivity to surroundings—not wanting to be made to feel cheap—is particularly marked in Brazil

Awareness of fashions and brands is still largely shaped by the nightly soap operas broadcast on terrestrial television and watched by an audience of tens of millions. Since these are for the most part produced in Rio de Janeiro and feature characters drawn from the upper-middle class, they tend to reflect a world where good-looking white people in expensively casual clothes flit around in a perpetual summer, attended by maids. This may go some way to explaining Brazil's demand for gyms and beauty products. Some 600,000 cosmetic operations are performed in Brazil annually, the highest total of any country apart from the United States.

The market for cosmetic surgery extends surprisingly far down the income scale, thanks to readily-available credit (nips and tucks can often be paid for in ten instalments). Rapid growth in credit, which was non-existent until fairly recently because of sky-high interest rates, has helped to boost the purchasing power of the middle class. Some 65% of car-purchases are paid for in instalments, over an average of 42 months. However, borrowing by individuals remains relatively low as a share of GDP, mainly because so few people have mortgages. It has also been underpinned by low unemployment and rising wages.

But the growth has been so fast—credit grew by 20% in the year to July—that some are worried. "I think if you asked all the banks individually they might say that they wish to scale back lending," says Ilan Goldfajn of Ciano Investments, "but none of them wants to lose market-share." In the meantime, riskier kinds of credit, such as overdrafts and credit cards, are growing faster than overall borrowing. Mr Goldfajn thinks it may already be too late for Brazilians to avoid a painful hangover from the current exuberance.

### **To the ballot box**

What impact will a larger middle class have on politics? Past polling suggests people in this income bracket would tend to favour the centre-left Party of Brazilian Social Democracy (PSDB) of former president Fernando Henrique Cardoso over Luiz Inácio Lula da Silva's Workers' Party (PT).

Yet according to Mauro Paulino of Datafolha, a pollster, Lula's personal popularity and his government's social programmes have disturbed this equation. "Those who have moved up from class D to C and experienced help from the government along the way, are likely to stick with the PT," he says. David Fleischer of the University of Brasilia has calculated that PT candidates, or those allied with the party, are at present ahead in 20 out of 26 mayoral races for state capitals in next month's municipal elections.

The middle class has meanwhile reshaped the PT in its own image: the party's wilder economic rhetoric is now muted. It also has to pay attention to a group of voters that has risen into the middle class and brought with it socially-conservative attitudes towards abortion and gay marriage. But it remains ironic that this great social transformation, which has been brought about in part by greater openness to trade with the rest of the world, may end up bolstering a party that, until fairly recently, favoured autarky.

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