April 15, 2014 4:03 pm

Fragile Middle: Latin American aspirations risk being frustrated

By John Paul Rathbone in Recife

A São Paulo appliance store, frequented by the emerging middle class. Over the past decade more than 35m Brazilians have moved out of poverty and into the ranks of the consuming masses ©Christian Tragni

"Shopping Recife", a shopping centre in Brazil's sweltering northeast, is one of the more obvious signs of how much Latin America has changed over the past decade – and how much it has remained the same.

With more than 450 shops, 10 cinema screens and 19 restaurants, its air-conditioned atriums were filled with shoppers on a recent weekday, some maxing out their credit cards, others resisting the multiple card offers being thrust upon them.

"It is so easy to get a credit card nowadays," exclaims Patrícia Ribeiro, a 39-year-old teacher. "But three cards are enough for me. I still need to pay my rent."

Ms Ribeiro is a typical member of Latin America's emerging middle class. Over the past decade more than 35m Brazilians, and about 20m other Latin Americans, have moved up the social ladder, out of poverty and into the ranks of the consuming masses.

The problem for the region is that this expansion of the middle class, traditionally a cornerstone of political stability, has in Latin America fomented a rise in social protests, as street riots from Brazil to Chile to Colombia show.

"The creation of Latin America's new middle class has generated a revolution of expectations," says Santiago Levy, economist at the Inter-American Development Bank. "But countries' ability to continue delivering on these expectations may not be there. It is a whole new political game."

Thanks to two decades of macroeconomic stability, and a decade of rising employment and wage growth driven by the commodity price boom, Brazil, like much of the region, has been on a consumption binge, much of it fuelled by easy access to consumer credit.

Today, though, the model has reached a limit. Credit in Brazil has doubled over the past decade to 56 per cent of gross domestic product, an unrepeatable jump.

It is no accident that the economy began to slow in 2011 just as the average Brazilian's debt service payments peaked at 23 per cent of household income, close to where US debt service costs were before the 2008 housing market crash.

The government, for which consumer credit had been a kind of philosopher's stone, is struggling to meet

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expectations generated during the boom years.

That is especially so as appetites for consumer goods are sated, particularly among the demographic bulge of young people recently entered in the workforce.

"There is a problem of understanding what the young want," says Marcelo Neri, president of IPEA, a think-tank. "The young do not always know themselves well, parents less so, and governments less still."

It is a situation repeated across the continent. In Chile, traditionally Latin America's best run economy, Michelle Bachelet has been re-elected as president on a platform of free university education, paid for with higher corporate taxes, following student protests about the high debts they face on graduation. Although a socially welcome move, the tax rise has depressed investment as Chile's copper-dominated economy is slowing.

Then there were Brazil's riots last year, when 1m took to the streets in protest over corruption and shoddy public services even as the government spent lavishly on football stadiums for the World Cup.

The Fragile Middle

Millions in emerging markets have in the past 30 years moved from poverty into the consuming middle classes. But with growth slowing, their fates are now one of the biggest challenges confronting governments

Plaudits for anti-poverty plan in Brazil wane

Brazil's *bolsa família* scheme aims to help people out of poverty and into the middle class, and most of its 50m Brazilian beneficiaries regard it as a good thing.

The R$24bn programme, in its 11th year, has been called a "favourite anti-poverty device" and is the world's largest conditional cash transfer scheme. CCTs are used in 30 countries, including the US . . .

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"There is a malaise," says Lena Lavinas, economics professor at Rio de Janeiro's Federal University. "Wages and mass consumption have grown, but public services – transport, health, education – remain terrible. People do not have access to what they need to participate in the new economy."

It is not only the new middle class that can feel frustrated. Increasingly, Brazil's "old" middle class, formed in the 1960s and aspiring to US standards of middle class, feels threatened by Brazil's "chav-like" new middle class, which listens to loud *funk ostentação*, or ostentatious funk, instead of the bossa nova favoured by their parents.

This anxiety came to a head this year in a phenomenon called *rolezinhos* : flash gatherings in shopping malls organised via social media of sometimes thousands of people, usually from the slums and often black, sporting a brash aesthetic of gold chains and sportswear.

"The *rolezinhos* are a kind of public jamming session by the new middle class, who want to occupy their place in society," says Mr Neri. "They are very different from the old middle class, who fear their traditional space is becoming congested."

The deep structural changes being wrought by this process has turned Brazil's new middle class into "a strategic political issue for governments", says Antônio Sampaio, research analyst for Latin America at London's International Institute for Strategic Studies.

That is especially so when considering its economic sustainability as the global glut of cheap money recedes and emerging markets growth slows. Financial Times data published this week reveal the extent to which a "fragile middle" class in countries such as Brazil are at risk of slipping back into poverty in an economic slowdown.

"It is low productivity growth that could make the middle class vulnerable," says Mr Levy. "You cannot have sustained rises in real wages without sustained increases in productivity."

This is the key challenge for Brazil, where average real wages have grown 30 per cent since 2003, while productivity has been broadly stagnant.

The consequent decline in competitiveness has caused Brazil to fall from investor favour. Nonetheless, many Brazilians feel upbeat. Although the economy is weak, real incomes are rising and unemployment is at record lows. These are the largest political assets enjoyed by Dilma Rousseff, the president, who is seeking re-election in October. But how much longer can it continue?

"Latin Americans tend to be optimistic," observes Mr Neri. "Optimism is good . . . but it also means high expectations – and a tendency to disappointment."

Additional reporting by Samantha Pearson