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# THE MIDDLE CLASSES OF INDIA, KENYA AND SOUTH AFRICA

Edited proceedings of a Round Table convened by the Centre for Development and Enterprise

The Centre for Development and Enterprise is a leading South African development think tank, focussing on vital national development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals for addressing major social and economic challenges. It has a special interest in the role of business and markets in development.

Series editor: Ann Bernstein

This report summarises the proceedings of a Round Table hosted by the Centre for Development and Enterprise and Institute for Economic Affairs in March 2014.

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## EXECUTIVE SUMMARY

Beginning in 2013, governments in several democracies across the emerging world were shaken by angry protests which were unprecedented in their size and suddenness. What shook the ruling parties most however was that the people driving the protests were mainly the new middle classes, the beneficiaries of the economic growth and government policies that had lifted them out of poverty.

Far from passively and gratefully enjoying their new status however, citizens in Brazil, India, South Africa and elsewhere took to the streets to express their frustration with corruption, rising prices, poor services and other grievances, and to demand more accountable government. This was a wakeup call to governments in several countries – most of whom had been in power for multiple terms – not to take this constituency of upwardly mobile, mainly urban voters for granted. Successful democratic societies of the future will be those that achieve sustained economic growth which consolidates and improves the hard-won status of this demanding and newly empowered constituency. Governments can best achieve this through market reform, policies that encourage labour intensive and faster growth as well as a better educated and skilled workforce. At the same time they have to hold on to and deepen democracy and accountability.

In numerous developing countries economic growth has lifted very large numbers of people from poverty to a status that can broadly be defined as 'middle class'. However the term middle class can mean many things. What is clear is that these 'new' or 'rising' middle classes are different in many respects from the middle classes of early-industrialising countries in Europe and North America. They also differ from the traditional conception of working class: unionised, often manual workers in large industrial concerns.

The new middle class in emerging societies is more likely to be in low-level public sector, or service sector employment or in self-employment. Under contemporary conditions much of this sort of employment can be precarious and new middle classes can be uncomfortably poised between upward and downward mobility.

As a consequence definitions and discussions of the middle class in emerging societies need to be carefully interrogated. One useful approach is to distinguish between a 'local' and a 'global' middle class. The global middle class consists of people

– often a relatively small group in developing countries – who have incomes and aspirations comparable to middle classes in wealthy, industrialised countries.

By contrast the local middle class is defined as those who earn incomes that place them between the very poor on the one hand and the global, or 'upper' middle class and the rich on the other. Such people, although middle class in terms of their place in income distribution, do not enjoy more than modest affluence and are vulnerable to regressing into poverty. This vulnerability is captured in the label 'floating' classes which is sometimes used to describe them.

Definitions of the middle class vary from country to country and from study to study, making cross country comparisons difficult. Different definitions are used depending on the issue or question being discussed. This makes for a very loose and often confusing public conversation about 'the middle class'.

For the purposes of this study, CDE used an African Development Bank summary of the middle class in Africa which estimated the 'floating class' in Kenya (in 2008) at 28 per cent of the population, the lower middle class at 15.2 per cent and the upper middle at a mere 1.59 per cent.

In South Africa two different definitions have been proposed, which encompass very different income groups. The 'literal middle' - that is, households in the middle of the income distribution - is made up of households with monthly per capita incomes between US\$190 and US\$570. They constituted 31 per cent of the population in 2008. By comparison the 'relatively affluent middle' find themselves in higher, more typically middle class income brackets by global standards between US\$700 and US\$5,000. They constituted 30 per cent of the population in 2008.

With respect to India, our expert cites an estimate that puts the local middle class in that country at about 40 per cent of the urban population and the global middle class at about 12.5 per cent of urban Indians. The proportions for the whole population are of course much lower. Nevertheless, although the global middle class accounts for just over 4 per cent of all Indians, this is still about 50 million people.

To advance understanding of this vital, but hard to define phenomenon, CDE commissioned research papers on India, Kenya and South Africa and hosted a round table discussion in Nairobi, Kenya in 2014 with our partner think tank, the

Kenyan Institute for Economic Affairs.

Four expert speakers assessed whether and how the middle classes of India, Kenya and South Africa strengthened democracy, promoted growth and improved the effectiveness of the state. We decided to refer to middle classes as a plural phenomenon to illustrate the many different groups and categories contained within this term and concept.

### **Middle Classes and Democracy**

Members of the middle classes who feel economically secure and can draw on savings and family support when they run into trouble are likely to espouse the values and demand the civil and economic freedoms of constitutional democracy. However, this may not be the case for those who recently achieved middle class status, have few support systems but many obligations, and are vulnerable to falling back down the income ladder. In fact, economically vulnerable lower middle classes can become a source of instability and, from either the political right or the left, demand greater state protection and restrictions on freedom if they feel that it will keep them from sliding back into poverty.

These factors may be behind the performance in South Africa's May 2014 general election of the populist Economic Freedom Fighters (EFF) – which has been branded both as the extreme right and the extreme left by its various opponents. Although the EFF gained a smaller share of the vote than the ANC break-away party, COPE in the previous election, it did win a 10 per cent share in South Africa's richest and most urbanised province, Gauteng. According to some political commentators the EFF nationally picked up votes from the poor and marginalised as well as some disaffected people in the lower (and some higher) rungs of the middle class.

In addition, ethnicity, race and caste continue to shape attitudes and influence electoral behaviour amongst middle classes in India, Kenya and South Africa. It is clear in all three countries that ethnicity and other historically-determined loyalties do not always or quickly disappear as people earn higher incomes.

This reality emerges particularly strongly from Kenya, where a survey of young middle class voters in the run up to the 2013 elections revealed that, despite initially expressing a preference for candidates who stood for better governance and the fight against corruption, they ultimately voted for the party led by Uhuru Kenyatta. As members of the Kikuyu ethnic group they worried that voting against Kenyatta's broad but

Kikuyu dominated ethnic coalition would allow a non-Kikuyu to win the Presidency.

In the 2014 Indian national elections, the Bharatiya Janata Party (BJP) won enough seats to govern on its own, the first time since 1984 that any party has done so. While some commentators have focussed on the Hindu nationalist appeal of the BJP and its candidate for Prime Minister, Narendra Modi, the party's election manifesto spoke to Indian voters concerned about the seeping corruption and anaemic economic growth that marked the past five years of Congress Party rule. In stark contrast to Congress's focus on expanding entitlements, the BJP emphasised economic growth, employment, infrastructure and improving the business environment, while Modi stressed his record as an effective leader of the state government in Gujarat.

In South Africa, the results of the 2014 national elections suggest that the black middle class remains broadly loyal to the ANC, but the ANC's vote share nevertheless fell to 62.15 per cent (from 65.9 per cent in 2009). At the same time, support for the largest opposition party, the Democratic Alliance, grew from 16.66 per cent to 22.23 per cent.

The ANC fared worst in the metropolitan areas, falling from above 60 per cent to unprecedentedly low figures in the two most important cities in Gauteng: Johannesburg (54 per cent) and Tshwane (51 per cent). Its support fell below 50 per cent (49.17 per cent) in the Nelson Mandela Bay metropolitan municipality (Port Elizabeth) in the Eastern Cape. While it is not clear at this point what exactly accounts for these shifts, it is likely that many urban, mainly middle class voters are shifting their support as a result of the less-than satisfactory performance of the ruling ANC.

### **Middle Classes and Economic Growth**

Apart from their substantial human capital and entrepreneurial contributions, the middle classes can be expected to contribute to economic growth either by increasing their consumption or by raising their savings rates. Rises in consumption can generate bursts of growth in the short run, but a rise in savings is more important for long run growth as it finances the investments necessary for improvements in productivity. Increased consumption by new members of the middle class has been an important element in the economic performance of all three countries. If consumption rises in response to a realistic expectation that lifetime incomes will rise then it can be both rational and desirable. If, on the other hand, rising

consumption is based on the conviction that tomorrow does not matter, or if the rising consumption is based on overly-optimistic assessments of future income, then both the individual household and the national economy can run into serious trouble.

There is growing concern about how sustainable rising consumption levels are, as rising indebtedness, especially in Kenya and South Africa, threatens to push many back down the income ladder while also undermining any hope for a savings boost.

Kenya has experienced a consumer boom over the past few years, largely driven by the middle class and accompanied by rising levels of debt, much of it for consumption items

In South Africa levels of debt are high and rising. The lion's share has been incurred by, mainly black, middle-income South Africans earning between R8,200 and R22,800 a month, who account for R600 billion worth of household debt. Only 40 per cent of this debt consists of mortgage bonds. The rest is owed on cars, credit cards, personal loans and overdrafts. These growing levels of debt have been encouraged by the low interest rate regime of recent years, which, in the face of rising interest rates, may reduce people's incomes and even squeeze them out of the middle class.

Emerging middle classes should have access to credit and have aspirations as consumers, but there can be a downside when debt levels rise too quickly. The increase in consumption debt in the three countries in the past few years could – unless modified by market-related interest rates – reduce their potential for long run growth and lead to severe disruption in the expansion of the rising middle classes.

### **Middle Classes and Politics**

A commonplace assumption is that middle class people have more ability than poorer people to focus on issues that go beyond basic survival, to mobilise effectively against bad policies and to demand more say in decisions made by the state. These assumptions are predicated to some extent on middle classes enjoying a certain level of independence from the state.

In all three countries the state has been heavily involved in the growth of middle classes. Large-scale public sector employment and dependent 'entrepreneurs' who rely on state tenders have been features of this. India made a decisive break with this, through the dramatic liberalisation policies of 1991 which swept away many aspects of the 'Licence Raj', with

its central planning, protectionism and state control. At first, Indian middle classes responded to the rising incomes and greater social mobility which were the results of liberalisation by disengaging from politics and operating outside the state rather than demanding better services from it. However there is a growing sense that this is changing. Middle class involvement has been particularly evident in recent protests against corruption and crime as well as the 2013 Delhi region and 2014 national elections.

Despite continuing dependence of middle classes on the state in Kenya and South Africa, things may be changing there too. In Kenya, during the time of the Kibaki administration (2002-2007), middle class citizens had a strong influence on policy making and the liberal 2010 constitution is seen as fundamentally shaped by middle class influence. Young members of the Kenyan middle class are today leading Twitter and other social media campaigns against poor service delivery

In South Africa middle classes are participants in policy issues at all levels of society. Middle class citizens of all races engage with national and local politics as taxpayers, professionals, trade unionists, civil society activists, residents and parents and with corporate power as both employees and consumers. Within this context the black middle class is becoming increasingly vocal and critical, contributing energetically to the public discourse as editors, print and broadcast journalists, commentators, letter writers, bloggers and enthusiastic users of social media. Many are as sharply critical of the ANC as the opposition parties (and critical of the opposition too). Increasingly they are playing a leadership role in civil society organisations and making their way forward in professions such as law, engineering and accountancy.

As well as democratic participation, a further contribution that middle classes are expected to make to public purposes lies in paying their taxes and thereby providing the revenue the state needs to provide services, pay salaries and hire competent bureaucrats. In all three societies the middle classes make up the bulk of taxpayers but a number of factors are creating growing disenchantment.

In India only 33.2 million individuals pay tax, between 2 and 3 per cent of a population consisting of 1.3 billion people and 250 million households. Only 0.38 per cent of these taxpaying individuals (fewer than 100,000 people) declare an income above US\$35,000 per annum. This almost certainly means that many thousands of Indians are either under reporting their

income or not reporting their income at all. Most individual tax in India is therefore paid by a few honest high earners and the small minority of the workforce (approximately ten per cent) working in the formal sector, whose tax contributions are automatically deducted from their payrolls. This, along with the fact that many taxpayers feel that they receive little or no benefits from the taxes they pay, is creating growing unhappiness that may have political repercussions.

Kenya currently collects the equivalent of 22 per cent of GDP in taxes, with the burden falling heavily on the lower middle class income brackets. This trend has been reinforced since a widening budget deficit pushed Kenya's government into finding additional sources of revenue, principally through Value Added Tax (VAT) on previously exempt staple goods. The introduction of these new taxes led to widespread protests in 2013/14, sharpened by the knowledge that richer Kenyans have – through aggressive tax planning – frequently found ways to avoid paying their full due.

In South Africa, direct taxation on individuals and businesses accounts for the bulk of state income (56.5 per cent in 2012/13), largely drawn from individual income tax (34 per cent of tax revenues), and that paid by corporations (20 per cent). Indirect taxes, principally VAT, contribute 26 per cent and are paid by all, regardless of income.

In 2013 only 5.1 million individuals (about ten per cent of the population) were required to submit tax returns with over 95 per cent doing so. These are the individuals on whom the direct tax burden, in the form of income tax, most immediately falls. Their relatively small number contrasts sharply with the rising number of recipients of social grants (15.3 million in 2013), with social protection accounting for 16 per cent of the national budget.

This skewed tax structure has resulted in what is often described as a heavy squeeze on middle class taxpayers. Financial commentators argue that the tax environment for lower and mid-level earners (the vast majority) has worsened considerably as income tax brackets have not been adjusted adequately to reflect the combination of higher local inflation and the depreciation of the rand. The effect of this 'fiscal creep' is that personal income tax rates for anyone earning below R1,5 million are now reported to be 'hopelessly uncompetitive by international standards'. At the same time, middle class tax payers are getting less back from the state, in terms of the quality of public goods and service delivery.

Widening the tax net, ensuring compliance and simplifying

and rationalising tax structures have been among the most striking successes of post-apartheid governments. It has been this more than relentless tax rises that has so far financed a very high social expenditure for an economy the size of South Africa's. However the number of income tax payers is still very small and in an environment of low growth and high unemployment the government's options for future tax revenue are limited. Tax increases may incur a heavy political cost, and protests (involving middle classes from the trade unions to the professions) have emerged over the (badly managed and communicated) imposition of highway tolls in the Gauteng province.

### Concluding Thoughts

Middle classes in India, Kenya and South Africa, however defined, are crucial for ongoing development, but how these classes impact on democracy and development is not as straightforward as many policy makers and experts might think. CDE's Nairobi workshop pointed to these complexities and provided many reasons why defining and understanding the middle classes of developing countries deserves more attention:

- 'Middle classes' is a slippery term in the developing world. The people this term encompasses can range from individuals and households recently emerged from poverty with many of them in danger of slipping back into it, to well-established affluent households with developed-country standards of living. The conversation is often too general and more work is required on different components of the middle classes and how this affects their attitudes, political engagement and how they engage with other members of society. As a rule, anyone talking about middle classes in a developing country should be asked to define what they mean.
- Faster economic growth, expanding educational and economic opportunities and upward mobility will see more independent middle classes emerge, that are publicly active, vocal in their demands and less easy to control. In their own and in their countries' interests, governments should resist the temptation to see this as a threat and rather work to adapt as the demands of their constituency change with social mobility.

- State-dependent middle classes are likely to hold back changes required to make states more accountable and economies more competitive and dynamic. They can also sometimes be a factor pushing for higher wages in the public sector irrespective of improvement in service delivery or what impact this has on other aspects of the budget affecting poorer people.
- The expansion of middle class consumption can boost economic growth, but can at the same time threaten long-term growth prospects if it leads to rising indebtedness. Careful macro and micro-economic management in respect to interest rates and financial stability is required to manage this process in an optimal way.
- Those who have just made it out of poverty, the so called floating classes, are frequently focussed on not slipping back and may lack the security and confidence to pursue long-term middle class interests like demanding an accountable state and pushing for more access to employment and entrepreneurial opportunities. The emergence of such classes, especially when led by young urbanites, can shake up existing political alliances and may be a force for change. But of course they hold real dangers as well - middle class voters, especially when economically vulnerable, will sometimes contribute to the strengthening of ethnic or nationalist movements, or populism in the form of support for policies of extreme redistribution and opposition to market reforms promoting productivity and competitiveness.
- Governments seeking a more tax-compliant middle class must find ways to strengthen tax enforcement and the efficiency of tax agencies. This requires state capacity as well as gaining and maintaining taxpayers' trust that their taxes will be used for legitimate ends. To do the latter, states must focus on reducing corruption and finding cost-effective ways to deliver services.

In all three countries the middle classes are contributing positively to democracy and development. However, there is room for improvement. India, Kenya and South Africa would all benefit from more secure middle classes, less dependent

on the state. This can be achieved by focusing resolutely on the kinds of market reforms that are necessary in all three countries for stronger more entrepreneurial and labour intensive economic performance. Higher growth, an expansion of economic opportunities and more effective governments will all lead to larger, more independent middle classes. In addition, education reform is essential. In all three societies poorer households find it difficult to access quality education that their children need to compete for better paying jobs. Expanding access to quality education will therefore enable more people to move out of poverty and create dynamic societies with growing middle classes.

The growing focus on middle classes, defined variably and very widely, tends to ignore questions about the working class. If the middle class has grown spectacularly in Brazil for example, where does this leave our understanding of the working class? Where does it fit exactly within the very broad definition of middle class in that society? And in South Africa if anyone with a formal full time job is in the literal middle, or even higher in our society, this has profound implications for the 'organised working class' who are not the poorest in the society by a long way.

Changing patterns of growth, employment and the organization of work, especially under conditions of globalisation have rendered obsolete many of the traditional assumptions about working and middle classes. This means that the 'working class' is as slippery a term as middle class. The idea that the unemployed, the informal sector and semi-skilled, skilled and even lower professional workers in the formal sector can be covered by the uniform category 'working class' simply does not fit reality. At the same time, people who are middle class in terms of their place in the income distribution and perhaps even by virtue of possessing tertiary qualifications may be militant trade unionists.

In sum then, while there are no simple or easy definitions or assumptions about class, we should think hard about middle classes and what their growth means for policy, politics and society. In our view, the middle class should be an important focus in how countries think about promoting development. Raising people above the poverty line is a vital starting point. However this needs to be coupled with far more attention on the dynamics of how to encourage social mobility and the expansion and consolidation of middle classes.

A more dynamic focus on growing a stable middle class requires a detailed understanding of what holds people back,



either through a lack of economic opportunities or an inability to take advantage of what opportunities there are. Focussing on liberating such potentially productive and entrepreneurial individuals would mark an essential broadening and

deepening of democracy in all three countries: from formal political rights to the empowerment of economic freedoms and educational opportunity.

## PRESENTERS



### **Ann Bernstein**

Ann Bernstein is founder and executive director of the Centre for Development and Enterprise (CDE), Johannesburg, South Africa. CDE is the country's leading think tank on social and economic policy issues. Bernstein is one of South Africa's leading development experts, a regular commentator in the media and frequent public speaker. Her latest book *The case for business in developing economies* (Penguin, 2010) received the Sir Antony Fisher International Memorial Award 2012 from the Atlas Economic Research Foundation in Washington DC. In 2005/6 she was a Fellow at the National Endowment for Democracy, Washington DC, and in 2013 a visiting scholar at the Woodrow Wilson Center for Scholars, Washington DC. She is the author of *The Democratic Alternative from the South: India, Brazil and South Africa* (published by the Legatum Institute, London and CDE, 2014)



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Rajiv Kumar is a Senior Fellow at the Centre for Policy Research in New Delhi. He was formerly Secretary General of the Federation of Indian Chambers of Commerce and Industry (FICCI). Dr Kumar was a member of the National Security Advisory Board 2006/8 and has served as a non-executive Director on the Central Board of the State Bank of India since August 2012. He has a DPhil in Economics from Oxford University and a PhD from Lucknow University. His latest book, *Many Futures of India*, published in April 2011 is a compilation of his columns in some of India's leading dailies.



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### **Professor Roger Southall**

Roger Southall is Professor Emeritus, Department of Sociology, University of the Witwatersrand. He was previously Executive Director, Democracy and Governance at the Human Sciences Research Council and before that, Professor of Political Studies at Rhodes University. His most recently authored book is *'Liberation Movements in Power: Party and State in Southern Africa'* (James Currey, UK; UKZN Press, South Africa) (2013).

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## Introduction

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This report on the middle class is the outcome of a fruitful collaboration between three leading think tanks from emerging democracies. They are:

- **India's Centre for Policy Research (CPR):** Based in Delhi, CPR is an autonomous, non-profit, non-partisan organisation and a leader in Indian public policy research.
- **Kenya's Institute for Economic Affairs (IEA):** Based in Nairobi, IEA seeks to promote open, active and informed public debates on key policy issues, both economic and political, and to propose feasible policy alternatives in these areas.
- **South Africa's Centre for Development and Enterprise (CDE):** CDE is an independent policy research and advocacy organisation, widely recognised as South Africa's most respected policy centre for social and economic development.

In March 2014, at a workshop in Nairobi, four prominent speakers from three countries presented their insights on the middle classes of India, Kenya and South Africa. This report summarises their presentations and the responses they formulated in reaction to comments from the audience. Rather than an actual record of the discussions, the report presents an integrated account of what the speakers said, in some cases accompanied by additional information derived from subsequent CDE research. The report then draws out comparative insights from these presentations and concludes with some policy implications for developing countries.

India, Kenya and South Africa are all grappling with the challenge of generating inclusive growth and radically reducing poverty. India has, over the past decade, perhaps been the most successful, generating an average increase in Gross Domestic Product (GDP) of 7.8 per cent over the period 2003-12 and in the past 20 years lifting close to 200 million people out of poverty.<sup>1</sup> In 2005 some 41.6 per cent of Indians lived below the US\$1.25 per day poverty line. By 2010 this had fallen to 32.7 per cent. Kenya, where 43.4 per cent of the population lived below US\$1.25 a day in 2005, generated a GDP growth rate of 4.6 per cent between 2003 and 2012. South Africa's growth rate was 3.2 per cent over the same period. According to the World Bank, 17.4 per cent of South Africans lived below the same poverty line in 2005, falling to 13.8 per cent in 2009.<sup>2</sup>

The three countries differ significantly in a number of ways: India's 1.2 billion people earn an average income of US\$1,503 per annum; Kenya's 43 million earn only \$943, while South Africa's 52 million earn a much higher US\$7,352.<sup>3</sup> Nevertheless, all three have achieved development successes without sacrificing democracy; they are struggling to reach the economic growth required for sustained progress; and they need to find effective and sustainable ways to help the poor. All three also face considerable challenges regarding the capabilities of the state, high levels of corruption, and rapidly changing political dynamics.

The workshop, which took place on March 18, set out to explore the role of the middle class in these three developing societies. Across the world large middle classes are regarded as a sign of development success and expected to strengthen democracy, improve the quality of governance, and be a source of social stability. Are these high hopes justified? What attitudes do the middle classes of India, Kenya and South Africa exhibit, how do they interact with the state and how do they influence politics? These were the core questions

India, Kenya and South Africa also face considerable challenges regarding the capabilities of the state, high levels of corruption, and rapidly changing political dynamics

explored by the workshop's speakers, Ann Bernstein, Rajiv Kumar, Njuguna Ng'ethe, and Roger Southall.

## Opening Remarks

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**Ann Bernstein**, *Executive Director, Centre for Development and Enterprise*

CDE has been interested in the middle class in developing countries for some time. Our focus is informed by the idea that, rather than dwelling only on poverty and describing the terrible conditions in which many poor people live, it is helpful to assess how people get out of poverty. For us, an approach that looks at middle class expansion and how people move up the income ladder offers new insights and is more focussed on positive changes than the traditional poverty-focussed approach.

CDE's first comparative workshop on middle classes in the developing world took place in 2012 in São Paulo, with ex-President Cardoso of Brazil and his think tank, the IFHC, as well as our partner think tank from India, the Centre for Policy Research. At that workshop we discussed the rising middle classes of India, Brazil and South Africa.<sup>4</sup>

A number of key issues emerged – especially around defining ‘the middle class’ – that provide useful background for the current discussion. The question of definition could occupy us for the rest of our lives without reaching consensus. What is apparent is that how you define the middle class depends on the question you ask. If you are a large multinational interested in the consumer market you will be interested in how much disposable income people have and how that affects their behaviour as consumers; if you are a sociologist you may be interested in how the middle class affects social cohesion and the preservation of the status quo; and politicians are interested in how the middle class will behave as voters. Each of these and other perspectives will lead to a different definition of who is or is not part of the middle class.

At our Brazilian 2012 workshop a number of interesting concepts emerged related to these definitional complications. One was the idea of distinguishing between a ‘local’ and a ‘global’ middle class. The global middle class consists of people – often a very small group in developing countries – who have incomes and aspirations comparable to middle classes in rich, industrialised countries.

By contrast the local middle class is defined as those who earn incomes that place them between the rich and the poor in that society. This category usually spans a wide group, including people just emerging from survival-oriented poverty. Such people, although middle class in a certain sense, are actually quite poor. They are clinging on to their new middle class status by their fingertips. When economies turn or rates of interest for lending money go up, their new-found status is threatened by increases in the price of food, other rising costs and the rate of (un)employment.

Regardless of income, middle classes can diverge greatly, both across and within individual countries. Those who work for the state or depend on state largesse will probably exhibit attitudes, values and political positions very different from those who work in the private sector, run their own enterprises, and do not depend on state subsidies or contracts. And while global surveys have repeatedly demonstrated that ‘people tend to hold different opinions about democracy and social issues once they reach a certain level

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of wealth, the fit between incomes and attitudes is nevertheless quite loose; attitudes are influenced by many other factors.<sup>5</sup>

Brazilians are probably the most advanced developing society in the study of their middle classes and other developing countries can learn much from their experience and insights. The Brazilian government has set up a special federal commission on the middle class and they are very proud of the phenomenal growth of their widely defined middle class – some 40 million new members of the middle class in the past 15 years. Nonetheless, as a professor pointed out at the end of our workshop in São Paulo, the celebration of all those who have risen out of poverty as having attained middle class status implies that Brazil no longer has a working class! This in a country that is governed by the Workers Party!

Perhaps the best way to deal with these complexities is to speak about plural middle classes. I have already put forward the idea of global and local middle classes. One could also think of lower middle class people (or those who have moved out of absolute poverty) who earn just above US\$2 a day followed by those in the middle all the way up to people who get more US\$20 a day. This is in effect the way the Brazilians have classified their population. Each income category within the wider middle class can then be studied separately in terms of attitudes, aspirations and vulnerabilities, while it is also possible to plot macro trends affecting the middle class as a whole. Another issue is the assets to which different income groups have access. There is a big difference between someone who earns US\$10 per day but owes US\$100,000 on his house and someone who earns the same income but owns his own home, and they both differ from someone who can rent out a second property.

According to the African Development Bank the middle class in Kenya (defined as people with a daily income of between US\$4 and US\$20 per day) makes up 16.8 per cent (6.5 million people) of the population. The same study puts South Africa's middle class at 19.8 per cent (9.8 million people) of the population.<sup>6</sup> However, if you include a category in what the African Development Bank calls the floating middle class, those people at the bottom who have just risen above the US\$2-per-day level and could be highly in debt and liable to fall out of the middle class at the first sign of recession, then Kenya's middle class is equivalent to 44.9 per cent (17.3 million people) of the population, higher than South Africa's 43.2 per cent (21.4 million people) The Indian middle class has been estimated variously to constitute from 0 per cent to 70 per cent of the population, depending on the definitions used.<sup>7</sup> There are, therefore, many definitions of the middle class, and one has to be aware when using the concept that there are probably as many divisions within any broad notion of the middle class as there are divisions between other classes.

What is important is that, in many developing countries, rising, mostly urban, middle classes are making demands on their governments that may play a dramatic role in shaping the future. These citizens are becoming increasingly politically active, demanding that governments perform effectively, become more accountable and promote the economic conditions within which middle classes will thrive rather than slide back into poverty. It is very likely that the successful countries of the future will be those that effectively accommodate these demands. However, we still know far too little about who makes up the middle classes in specific developing countries, what they demand, how they see themselves in relation to the state and how they will affect the political development of these countries.

In many developing countries, rising, mostly urban, middle classes are making demands on their governments that may play a dramatic role in shaping the future

## Indian Middle Classes and Development

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**Rajiv Kumar**, *Senior Fellow, Centre for Policy Research*

Rather than focus on definitional issues, I will discuss how the emerging middle class affects India's prospects by looking at how the position of the middle class has shifted in relation to the state and how these shifts have affected the willingness of the middle class to pay tax, as well as what they demand of the state. I conclude by assessing how the rise and changing character of the middle class has affected politics.

### Middle Class Trends

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The Indian middle class has clearly expanded rapidly and passed through a number of distinct historical phases. The fight for independence was the first phase. During this time the middle class was directly involved and very engaged in the political process. Without the involvement of the middle class India would not have achieved independence. Almost all the independence leaders, such as Jawaharlal Nehru, Mohandas Gandhi, and Rajendra Prasad, were middle class in some way. Members of the middle class also dominated the 1950 Constituent Assembly, which drew up the constitution. As a result, their aspirations are strongly reflected in that constitution.

The second phase took place during the 'Licence Raj' period, when most activities were subject to state control and no one could do anything without some kind of licence. In this phase the dominant groups were middle class bureaucrats who set up a quasi-socialist system based on central planning and inward-looking protectionism. The rise of the bureaucrat was accompanied by the decline of the entrepreneurial class, except for those business owners who were able to secure licences and become part of the tightly controlled system. During this phase the middle class consisted largely of 'insiders' complicit in maintaining the status quo and keeping 'outsiders' in their place.

A new stage emerged in 1991 with India adopting dramatic liberalisation policies that opened access to the economy, increased competition and reduced state intervention. These reforms had a dual impact on the growth of the middle class. Firstly, they opened up access to economic opportunities for those who had been barred from them by the Licence system. Secondly, the Indian economy took off, generating growth rates that eventually exceeded 8 per cent, thereby massively expanding economic opportunities and allowing incomes to rise rapidly. As a result, a growing, although still relatively small, global middle class began to emerge. They expected to consume the same goods and services as middle class people in developed countries. A much larger group made up the local middle class, many being self-employed entrepreneurs. One recent estimate puts the local middle class at about 40 per cent of the urban population, equivalent to 150 million people. About 12.5 per cent of urban Indians (or 50 million people) could be considered members of the global middle class.<sup>8</sup>

However, despite these rising incomes and changing expectations during the liberalisation of the 1990s, the Indian middle class largely became disengaged from politics, and rather than expecting the state to deliver better services and become more accountable, they became increasingly self-reliant, operating outside the reach of the

The Indian middle class largely became disengaged from politics



state. This had major consequences both for the nature of politics and for the ability of the state to collect taxes, an issue explored in detail below.

At the same time, as members of the middle class have become more educated and globally connected, they have started to compare their situation with those of middle classes in other countries. Neighbouring China, in particular, has become an important point of reference as Indians increasingly ask why government services, infrastructure and education appear to be better in China than in India. 'If the Chinese state can deliver these services, why can't the Indian state?' middle class Indians increasingly ask themselves.

This is perhaps now the dominant tension within the Indian middle class. Many continue to be self-reliant and expect as little as possible from the state, while others are increasingly dissatisfied with the state's performance and demanding more.

## The Middle Class and Tax Compliance

Indians' readiness to pay tax is one indicator of how they relate to the state. It is probable that those who have given up on the state will also be reluctant to hand over hard-earned money in the form of taxes. Only 33.2 million individuals pay tax, in a population of 250 million households, meaning only between 2 and 3 per cent of Indians pay tax. Only 0.38 per cent of these taxpaying individuals (less than 100,000 people) declare an income above US\$35,000 per annum. It is certain that the city of Mumbai alone has more people than that earning more than US\$35,000.

Huge resentment is building up about this in the lower rungs of the middle class. Many of them are workers in the organised sector (although 90 per cent of Indian workers are in the informal sector), which means that income taxes are automatically deducted from their salaries. In addition, just less than 90 per cent of India's taxpayers earn less than 500,000 rupees (US\$10 000) per year. The vast majority of Indians have annual incomes of less than 200 000 rupees (US\$4,000) per year, exempting them from tax.<sup>9</sup> Most individual tax in India is thus paid by high earners.<sup>10</sup> This, along with the fact that taxpayers feel that they receive no benefits from the taxes they pay, is creating growing unhappiness that will undoubtedly have political repercussions.

## The Middle Class and Demand for Public Services

It is difficult to predict in which direction the trends are moving. The Indian middle class is divided in numerous ways: regionally (in the poorer states, such as Bihar, Odisha, and Chhattisgarh, middle class behaviour will differ from that in rich states like Tamil Nadu, Maharashtra and Karnataka), by caste and other identities, by occupation and by how connected they are to the global world. However, from my own experience, it appears that the middle class is becoming more engaged. When I came back to India in 2004, the overarching sentiment I picked up was that we don't need the government; India will grow despite the government. People believed that they would build their own wealth, get their own water, get their own schools. My sense is that this has begun to change. There is growing concern that if government doesn't become more supportive industry will find it difficult to compete in an increasingly competitive world. The challenge of Chinese industries is particularly acute and the static nature of the manufacturing sector's share of GDP over the past three decades has awakened everybody to this threat.<sup>11</sup> Between 2001

As members of the middle class have become more educated and globally connected, they have started to compare their situation with those of middle classes in other countries

and 2010 China captured nearly 45 per cent of global growth in manufacturing exports from low-cost countries, against India's 5 per cent.<sup>12</sup>

India has 100 per cent primary school enrolment, so the cohort going to secondary school is becoming much larger. Aspirations are rising but public sector education has all but broken down. As a result, a massive number of Indians from the poorest to the richest spend their own money on educating their children. They all demand a return on this investment. They want their children to have better opportunities than they had, and if this turns out not to be the case they will increasingly blame the government.

The fastest growing industry in India is the provision of private security services. People from rural areas are put into uniforms and posted outside rich people's gates because publicly provided law and order has broken down. However, middle class Indians are increasingly becoming disenchanted with having to provide their own services. Many can no longer afford all the rising costs of this. In addition, less affluent members of the growing middle class are starting to oppose the fact that richer Indians can afford the best education, their own security and other services while they go without. They are demanding that government does something to equalise this.

Finally, the growing cost of relying on private solutions to public problems is becoming apparent. If everybody builds their own well the water table will go down, which has happened in several states to the extent that water is simply not available to anybody. In addition, water has become contaminated in states like Gujarat and the Punjab.

They want their children to have better opportunities than they had, and if this turns out not to be the case they will increasingly blame the government

### The Middle Class and Politics

The middle classes were once loyal to the Congress Party that brought independence, but this is no longer the case. Loyalties are frequently switched between the two main national parties, the Bharatiya Janata Party (BJP) and Congress, and even more frequently between the plethora of regional parties. Many see the regional parties as more responsive to their concerns and feel that they can interact with and influence the regional parties more than the national parties. In the 2014 general elections the combined vote share of the two national parties – Congress and BJP – was just over 50 per cent. Regional parties fared well, with seven of the 10 biggest parties in the new Lok Sabha (the lower house of parliament) – by number of seats – being regional, rather than national.

There were some interesting state-level election results in 2013. In Rajasthan, where the state government failed to deliver on its promises, the ruling party – Congress – was almost completely removed from the scene, and the opposition won 75 per cent of the seats. In the run-up to the elections, the ruling chief minister tried to win back voters by opening the Treasury sluice gates for all kinds of populist schemes. But the electorate was not taken in and voted him out anyway. In the 2014 general election Congress lost all its seats in Rajasthan. The state sends 25 MPs to the Lok Sabha. Previously Congress held 20, with BJP controlling four and an independent winning the other. In 2014 all 25 constituencies voted for BJP candidates. In Delhi, a similar situation prevailed. The state sends seven MPs to the Lok Sabha. In 2009 all seven represented Congress. In 2014 the Congress lost all seven to the BJP.

However, in Delhi the big political development of 2013 was the emergence of a new party, the Aam Aadmi Party (AAP). This grew out of the burgeoning civil society movement to fight corruption and promised to fight this scourge as well as deliver public goods and provide improved law and order. Delhi is predominantly middle class and it appears from

last year's elections for the Delhi Legislative Assembly that the middle class has taken into account the poor performance of both the BJP and Congress past governments. Voters punished both parties and threw their lot in with the AAP in the hope that this new party would deliver the governance and economic growth the middle class desires. The AAP won 29.5 per cent of the vote, behind the BJP with 33.1 per cent, with Congress winning a quarter of the vote. With support from Congress the AAP managed to form a government, but the AAP walked out of the government after 43 days. The danger now exists that the party will become increasingly populist. In the recent general elections, the AAP won 2 per cent of the popular vote, and managed to secure four seats, all in Punjab. Although it did not win a seat in Delhi, it did well in the state. It came second in each of Delhi's seven Lok Sabha seats, securing between 30 and 38 per cent in each seat. Overall the AAP won 33 per cent of the vote in Delhi in the general election, which in terms of voter numbers was actually more than in the 2013 state legislature election.<sup>13</sup>

By contrast, in Chhattisgarh, one of India's poorest and newest states (formed only in 2000), the incumbent party has fared well. In the 2009 election the BJP won 10 of the state's 11 MPs, repeating this in 2014. The BJP has also been in control of the state's legislative assembly since 2003.

While Delhi and Rajasthan both have relatively high proportions of middle class voters, the proportion in Chhattisgarh is far lower. Nevertheless, while it may appear that in this state poor voters stay loyal to the incumbent party, it can be argued that in all three states voters are swayed primarily by issues and performance, rather than populist, ethnic, caste or religious grounds, although these probably all still play a role. In Chhattisgarh the continued dominance of the BJP can at least partly be attributed to the relatively scandal-free administration of the chief minister, Raman Singh, as well as the state's strong economic performance.<sup>14</sup>

As the Indian middle class becomes more politically engaged it is hoped that political parties will adopt an increasingly enlightened approach, setting out to deliver better regulation and services, responsible fiscal policies and strategies that encourage rapid economic growth.

Voters are swayed primarily by issues and performance, rather than populist, ethnic, caste or religious grounds

The Kenyan middle class has not been strong enough to promote the kinds of process that would lift as many people out of poverty as possible

### India's 2014 general election and the middle class

In the recent 2014 national elections the BJP won by a landslide, securing 282 of the 543 seats in the Lok Sabha. The national coalition, in which the BJP is the biggest member – the National Democratic Alliance (NDA) – won 336 seats in total. Even without the seats of its NDA partners the BJP had enough seats to form a government. This was the first time since 1984 that one party won enough seats to govern on its own. The number of seats that Congress won fell from 206 to 44. Its coalition grouping – the United Progressive Alliance (UPA) – had won 262 seats in 2009, but this fell to 58 seats.

However, the BJP won only 31 per cent of the vote, and the NDA 42 per cent, with Congress securing less than 20 per cent. Due to India's 'first-past-the-post' electoral system, the BJP and its alliance partners achieved a majority of seats with a minority of votes.

It is not yet entirely clear whether the middle class strongly preferred any one party. Support for the two primary national parties – Congress and the BJP – varied widely by state, and there did not seem to be any correlation between the proportion of middle class voters and support for either of these two parties.<sup>15</sup>

The vote for the two big national parties varied from as low as 5.5 per cent in Tamil Nadu (where 41.5 per cent of residents are classified as poor) to above 90 per cent in Gujarat (where 34 per cent of people are poor).

Nevertheless, while many commentators have focussed on the Hindu nationalist appeal of the BJP and its candidate for Prime Minister, Narendra Modi, the party's election manifesto contained elements that would have appealed to members of the middle class. In stark contrast to the Congress manifesto, which focused on 'entitlements as the only remedy for the hapless people', the BJP's manifesto placed its emphasis on economic growth, employment, raising the rate of domestic savings, improving the business environment for investors, including SMEs, raising R&D expenditures and strengthening both social and physical infrastructure.<sup>16</sup> In addition, voters also responded 'to the Modi appeal of credible, clean, transparent and effective governance'.<sup>17</sup>

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## Kenyan Middle Classes and Development

**Professor Njuguna Ng'ethe**, *Associate Professor, Institute of Development Studies, Nairobi University*

My dominant theme is that the Kenyan middle class has not been strong enough nor have its members shown sufficient leadership or foresight to promote the kinds of process that would lift as many people out of poverty as possible. Such a policy orientation, which would focus on promoting good governance and expanding economic opportunities, would be in the long term interest of the middle class. It would lead to a larger, stronger class, as well as a politically more stable and economically more dynamic country. There are numerous reasons why such processes have largely failed to materialise.

One factor behind the orientation of Kenyan middle classes is a prevalent ideological defensiveness. It seems that Kenyans who make it out of poverty tend to barricade themselves from the rest of society and adopt ideas designed to keep poor people poor. Thus, newly middle class Kenyans frequently see social advancement as a zero sum game; they worry that more people coming out of poverty will increase competition for scarce

resources and opportunities at the top. They cannot imagine a situation where better governance, better education and higher levels of entrepreneurship benefit everyone.

The condition that largely underpins these tendencies is the general weakness of the Kenyan middle class. This class has not grown to the size, or reached the income levels necessary, to put its members in a secure enough position from where they could focus on their long term class interests.

However, the Kenyan middle class is certainly growing. This has been thanks to - firstly - a robust and growing private sector-driven economy in the decade following the end of the dictatorship of President Daniel Arap Moi in 2002. The highly developed tertiary and higher education system is another driver of middle class growth. Kenya has also seen unprecedented growth of infrastructure. According to the African Development Bank, countries that have higher levels of educational attainment, improved health and human development in general tend to have larger middle class populations. Tertiary education displays a strong positive correlation to middle class growth. Higher levels of infrastructural growth are also positively correlated with middle class growth as they foster a competitive economic environment that attracts more investments, stable employment and income-generating opportunities.

The dominant political role played by members of the middle class has been to seize and use the state for their own interests. This began with the struggle for independence, which was led by the tiny, colonially-educated elite under Jomo Kenyatta. The fight for independence was largely defined as a fight for access to state structures. There was little sign that the middle class leaders of this movement had internalised any of the so-called middle class values of competition, freedom and accountability.

Mostly, the current Kenyan middle class owes its origins to the 'Kenyanisation' policy pursued by post-colonial governments, whereby government jobs were re-allocated or reserved for black Kenyans. It is unsurprising therefore that the Kenyan middle class remains loyal to the state; they were created by the state.

Even today, the main avenue for middle class advancement is to achieve a certain level of education and then secure a position with the government. In addition, many private businesses depend on the state for tender opportunities and probably wouldn't survive without government contracts. There are entrepreneurs who achieve middle class status without accessing state structures, but, despite recent growth, they remain a minority. Most members of the Kenyan middle class therefore remain dependent on the state in some way.

The highly developed tertiary and higher education system is another driver of middle class growth

It is unsurprising that the Kenyan middle class remains loyal to the state; they were created by the state

### Debt, property and the Kenyan middle class

Kenya has experienced a consumer boom over the past few years, largely driven by the middle class. The country also has the most developed retail market on the continent, after South Africa.<sup>18</sup> These trends may be unsustainable due to rising levels of debt.<sup>19</sup> In 2013 a quarter of all loans disbursed by lending institutions were for non-investment use, such as motor vehicles, holidays, weddings, or home improvements. This growth in the unsecured sector can be attributed to a low savings rate coupled with a rising cost of living.<sup>20</sup>

In 2011 credit to private households had reached US\$2 billion, a 32.5 per cent increase on the previous year.<sup>21</sup> And in the same year overall domestic credit granted to the private sector was equivalent to 38.1 per cent of GDP. This dropped to 36.6 per cent in 2012.<sup>22</sup> In that same year the Kenyan central bank raised interest rates significantly, to cool an economy in danger of overheating. In January 2011 the base interest rate was 5.75 per cent – by December it reached 18 per cent, leaving many Kenyans with hefty loan repayments.<sup>23</sup>

Furthermore, a number of analysts believe the property market may be in a bubble. House and land prices are rising fast, partly because of speculation by richer Kenyans and foreigners who 'buy to let'. The average property price increased by nearly 250 per cent between December 2000 and March 2014.<sup>24</sup> Between 2000 and 2014 annual consumer inflation generally ranged in a band of between 5 and 15 per cent. It shot up to 26.2 per cent in 2008 (probably as a result of ethnic unrest following the 2007 elections). However, since then inflation has been below 10 per cent except in 2011, when it reached 14 per cent. In 2013 inflation was 5.7 per cent.<sup>25</sup> In 2011, the Kenyan Central Bank estimated that only about 320,000 households could afford mortgages and the entire mortgage book consisted of only 16,000 individuals and organisations.<sup>26</sup> The high interest rates on mortgages have resulted in Kenyans, especially in the middle class, preferring to rent property rather than buy.<sup>27</sup> High interest rates mean that purchasing a home can be twice as expensive as renting one.<sup>28</sup> For example, purchasing a two-bedroom house in Mlolongo – a Nairobi suburb – would cost about 69,230 Kenyan shillings (about US\$700) in monthly repayments. Renting the same property would cost about 21,000 shillings (about US\$230).<sup>29</sup>

Home ownership is often seen as a primary identifier of the middle class. However, it seems that middle class Kenyans have little chance to reach this status. At the same time, high levels of debt make it difficult for Kenyans to build up assets, such as investment portfolios.

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Educational attainment is heavily biased towards families in the upper income brackets. Research by Uwezo Kenya in 2012 showed that 80 per cent of pupils in government primary schools are from the bottom two income quintiles. This implies that most middle class Kenyans send their children to private schools. At high schools the bottom income quintiles make up only 60 per cent, while at the university level 85 per cent of students come from the top two income quintiles. Not a single person from the bottom income quintile makes it into university.<sup>30</sup>

In my opinion, a big difference between South Africa and India on the one hand and Kenya on the other is that in Kenya the fight for independence was not led by a strong, coherent political party. While South Africa had the African National Congress (ANC) and India had the Congress Party, which appear to have had carefully worked out ideologies and programmes and some commitment to liberal democracy, the Kenya African Union (KANU) was driven primarily by the imperative of getting hold of state structures in the name of a very vague notion of liberation. There was little in-depth discussion of who was getting liberated, how that liberation would work and what the politicians would do with the state once they got hold of it.

This contrast with India and South Africa has been compounded by the fact that Kenya has still not managed to produce an ideologically coherent and well organised political party. There have been moments in the 1960s and in the 1990s when we moved in the direction of creating well-defined political movements, but these never resulted in stable political organisations. As a result the people who find themselves in power have no clear ideological framework. This can help to encourage extreme forms of self-interest as the powerful represent no one but themselves.

In my opinion, the prevalence of ethnicity in politics should broadly be explained in terms of these middle class weaknesses. Appeals to ethnic solidarity are largely a way for politicians to convince voters not to evaluate governments on their actual performance and to fear the possibility of other ethnic groups taking power. As a political tool, ethnicity helps to keep poor people poor and undermines the effectiveness of Kenyan democracy.

An additional issue of great importance is the large size of the so-called 'floating middle class' of people who recently emerged out of poverty and have a good chance of sliding back. I do not believe that such a class, concerned largely with securing its position, whose members are always looking over their shoulder, can be expected to adopt middle class values with any vigour.

The income threshold at which middle class Kenyans could become focussed on longer term class interests may be higher than in other countries because as people's incomes rise they are faced with growing demands from their family, community and ultimately tribe.

On the whole, the middle class has played a passive political role. They have been inclined not to rock the boat and have largely stayed out of politics. In surveys, the people who say that they will not vote or participate in 'town hall' meetings are middle class. Members of the so-called floating class appear to be more involved in such meetings and grass-roots mobilisation. The one time when members of the middle class became more actively involved was during the 1980s pro-democracy movement that eventually helped to restore multi-party politics in 1992 and led to the electoral defeat of Daniel Arap Moi in 2002. However, much of this was influenced by special circumstances. Moi had become so predatory that he threatened the very existence of the middle class, so many felt that they had no choice but to oppose him. In addition, rather than emerging wholly out of local politics, much of the pro-democracy movement was driven by international civil society.

Still, the role of the middle class in politics has certainly strengthened. The Kibaki administration inherited a relatively active lobbying environment from the days of agitation against Moi. It gave citizens, the middle class in particular, access to the policy making process and policy influence. The constitution of 2010 is rightly seen by some as a civil society and middle class document. In addition, the Kibaki regime was friendlier to business and provided more voice for private sector lobbying groups and regular, scheduled formal consultations between the government and the private sector were established.

Under Moi there was a great reluctance among the middle class to pay tax. This has since begun to turn around but many middle and high income earners under-report their income or avoid paying tax at all. Some of this tax avoidance is motivated by the fact that public service provision is poor. However, without sufficient tax collection government does not have the capacity to deliver the services the middle class demands. This creates a kind of catch-22 situation, which can only be overcome once government wins the trust of the middle classes and persuades them that greater tax compliance will in effect lead to a better government. Such processes have not yet emerged.

As a political tool, ethnicity helps to keep poor people poor and undermines the effectiveness of Kenyan democracy

Kenya currently collects the equivalent of 22 per cent of GDP in taxes. By contrast, South Africa collects closer to 30 per cent, the norm for more developed emerging markets. This, coupled with a widening budget deficit, has pushed Kenya's government into finding additional sources of revenue.<sup>31</sup> With the passage of 2013's VAT Act the government imposed a 16 per cent tax on goods that had previously been exempt, many of them staples, such as milk and cooking oil. In addition, electricity is now subject to the higher VAT rate. Previously VAT on electricity was 12 per cent, and those using less than 200 kilowatt hours were exempt.<sup>32</sup>

In February 2013 a 10 per cent excise tax also became effective on all mobile money transfers. Despite this, mobile money transfers – known as M-Pesa – have continued to grow, although there was a small dip immediately after the tax was implemented. In August 2013 mobile money transfers reached a record 168 billion shillings (nearly US\$ 2 billion).<sup>33</sup> About 28 out of every 100 shillings charged to a telecoms customer already goes to the taxman, making Kenyan telecoms customers among the most highly taxed in the world.<sup>34</sup>

The ongoing devolution of power to 47 new counties as mandated in the 2010 Constitution has also resulted in additional taxes. For example, a business that seeks to set up shop in Nairobi County will have to pay 66 per cent more for a licence, while charges have also gone up at hospitals and cemeteries. In Kiambu County levies on lorries entering and leaving quarries went up 200 per cent, while business licence costs in Thika – a major town in the county – more than doubled.<sup>35</sup> In Nairobi County politicians were previously charged 50,000 shillings (about US\$550) to hold a rally – the county hoped to increase this to 250,000 shillings (about US\$2,800).<sup>36</sup> Confusingly, the Kenyan Senate declared all new taxes introduced without consulting the National Treasury and Commission on Revenue Allocation illegal while at the same time the body tasked with overseeing Kenya's transition to a more devolved model of government said that counties would have to source extra revenue, to reduce their financial dependence on the central government.<sup>37</sup>

The implementation of these new taxes led to widespread protests. Kenyans in the middle class and those on lower incomes are bearing the brunt of these higher taxes. Multinational corporations have taken advantage of outdated tax holidays and incentives, which cost Kenya money, rather than encouraging foreign direct investment. Local companies have also found ways to avoid paying their fair share of tax and richer Kenyans in general have – through aggressive tax planning – found ways to avoid paying their full due. In 2013 it was estimated that tax evasion by companies and individuals had cost Kenya about 100 billion shillings (about US\$1.2 billion) over the preceding three years.<sup>38</sup>

One place where middle class Kenyans have an impact is on social media. Middle class Kenyans are not averse to 'tweeting' their opinions on a variety of issues, including complaining about poor government services. It is not clear, however, whether this type of activity is reflected in the voting behaviour of the middle class. It is the case that 86 per cent of Kenyans voted in the recent elections, which suggests that many middle class Kenyans went to the polls.<sup>39</sup> However, there is a sense that most voters voted along ethnic lines, and the candidates who stood for middle class issues received very few votes.

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document



### The middle class and the 2013 elections in Kenya

How did middle class Kenyans vote in 2013? Did they vote on issues, or on ethnic background? Ethnicity has long been a factor, and ethnic tensions erupted into widespread violence during the very close presidential election of 2007. The incumbent, Mwai Kibaki, a Kikuyu, narrowly defeated Raila Odinga, a Luo who also drew support from the Kalenjin. There were a number of alleged irregularities and allegations that the entire election was fraudulent, which sparked the initial protests.<sup>40</sup> These soon spiralled into violent ethnic attacks, especially against Kikuyu living outside their traditional area of settlement.<sup>41</sup> The civil unrest – which lasted two months and resulted in at least 1,200 deaths – ended in a coalition government, mediated by former secretary-general of the United Nations, Kofi Annan.<sup>42</sup> Kibaki remained President and Odinga was appointed Prime Minister.<sup>43</sup>

In 2013, to avoid a repeat of 2007, a broad ethnic coalition was formed between Uhuru Kenyatta, a Kikuyu and a son of Kenya's first president, Jomo Kenyatta, and William Ruto, a Kalenjin. Both Kenyatta and Ruto have been indicted by the International Criminal Court (ICC) on suspicion of inciting some of the 2007 ethnic violence (Kenyatta against Kalenjin and Ruto against Kikuyu).<sup>44</sup>

In the run-up to the 2013 elections, an academic from Oxford University, Dominic Burbidge, surveyed a small group of 12 middle class Kikuyus aged between 18 and 30 living in Nairobi. He classified them as middle class if they attended an institution of higher education or were in stable, salaried employment, and had enough disposable income to consume non-essential goods and services. In the period before the election most respondents considered voting for two minor candidates, Peter Kenneth and Martha Karua. Both are Kikuyu, but stood on issues, such as better governance, with which middle class voters could identify. The group whom Burbidge surveyed saw these candidates as a 'fresh option'.

However, as it got closer to the election these voters began to worry that a vote for a minor candidate with no chance of winning would damage Kenyatta's chances, and thus allow a non-Kikuyu (Raila Odinga) to win the Presidency. Ethnic tensions escalated during this time, although they never reached 2007 levels.

Consequently the majority of Burbidge's respondents cast their vote for Kenyatta. They regarded him as the lesser of the two evils; they did not trust Odinga. Others voted for Kenyatta out of sympathy, following his ICC indictment. They saw Kenyatta as 'innocent until proven guilty' and voted against Western meddling in Kenyan affairs. Burbidge concluded that 'the growing middle class is likely to have a much more complicated effect on democratisation than is currently surmised'.<sup>45</sup>

Michela Wrong, award-winning author of *It's Our Turn to Eat* on corruption in Kenya and the role of John Githongo, agrees. According to Wrong, 'since independence, a Kenyan's quality of life — access to clean water, roads, clinics and schools — has been perceived as being determined by whether his ethnic kinsman sits at the top table'. Ethnic voting will continue to be prevalent — for the middle class as well as others — as long as winners in Kenyan politics consider 'state resources as a winner's preserve rather than national assets benefiting all citizens equally'.<sup>46</sup>

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Most voters voted along ethnic lines, and the candidates who stood for middle class issues received very few votes

## South African Middle Classes and Development

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**Professor Roger Southall**, *Professor emeritus, Department of Sociology, Wits University*

The middle class in South Africa has always had a complicated relationship with the state. The Afrikaner middle class was largely developed through state largesse and affirmative action programmes by the National Party government. The growing black middle class is to some extent similarly an outcome of government affirmative action programmes. This complicates the relationship between the class and the government and whichever party runs it. It also has important consequences for politics and the economy.

Since the end of apartheid in 1994 the black middle class has grown quickly, thanks to the opening up of senior positions in the state sector, as well as more opportunities in the broader economy. The majority of middle class South Africans are now black, which contrasts strongly with the situation under apartheid, when the middle class was almost wholly white.

### The Middle Class and the Party-State

When the ANC came to power it was confronted by the challenges of forging a unified state machinery out of multiple and racially-distinct institutions while assuming responsibility for the management of a complex economy. The ANC initially remained heavily dependent upon the skills and experience of white public servants. Nonetheless, the party was committed strongly to 'transformation'.

Transformation was in practice reduced to two processes: the first was the 'deployment' of party 'cadres' to positions in the state and the wider public sector, supposedly to ensure that the public service was aligned to the government's programmes; the second was the implementation of affirmative action, so as to render the state 'demographically representative.' Given that these two processes were simultaneous and intertwined they are virtually impossible to disentangle. It is sufficient to record that over the first two decades of democracy, they brought about a massive change in the racial complexion of the state machinery.

Before 1994 senior occupational categories within the state were overwhelmingly staffed by whites, accounting for between 89 per cent and 94 per cent of management. By 2006, the demographics had undergone a major change. Whites in a somewhat larger (1.2 million) public service had fallen to just 9 per cent, while Africans now accounted for 78.3 per cent, Coloureds for 9.9 per cent and Indians 2.8 per cent.

'Transformation' has also seen the demographics of those who staff the Bench change markedly. While in 1994 some 97 per cent of judges were white males, by 2008 that proportion had fallen to just 48 per cent.

Although the majority of public service jobs come with modest pay, they have allowed many thousands of blacks to climb the ladder into the ranks of the lower middle class.

The black middle class has grown quickly, thanks to the opening up of senior positions in the state sector, as well as more opportunities in the broader economy

## Business and Entrepreneurship

Under apartheid, opportunities to engage profitably in the market were largely restricted to whites, with a highly restrictive system of licensing barring blacks from engaging in even low level retail activities, save in impoverished black areas. By the late 1980s, the economy was presided over by a handful of vast conglomerates, superimposed on a small and medium business sector dominated by whites.

One of the ANC government's objectives was not merely 'redress' and 'redistribution,' but to harness the hitherto wasted resources of black people, thereby maximising the productive capacities of the economy. Subsequently, alongside strategies of affirmative action, a transformative policy framework emerged to secure the advancement of black people in business. This became known as Black Economic Empowerment (BEE).

Initial BEE deals were generally limited to a shift in ownership, rather than what is called 'broad-based BEE'. The first major corporate BEE deal was structured by an insurance company, Sanlam. This was part of a project to rescue a large portfolio of underperforming assets, resulting in the creation of an entity called New Africa Investments Limited (NAIL) under the leadership of BEE pioneers such as Nthato Motlana and Dikgang Moseneke. The resulting initiative incorporated affirmative action, employee share ownership schemes, corporate social responsibility projects and efforts to develop black customers and suppliers.

Thereafter BEE was to be taken up by the ANC. Lobbying by black business groups saw the creation of a BEE Commission chaired by Cyril Ramaphosa and the announcement of a 'Transformation Charter' that would set BEE benchmarks, time frames and procedures, and serve as a model for BEE charters in different sectors. The initiative forced the pace of change, as companies scrambled to increase black ownership, recruitment and targets. Subsequently, extensive criticism of so-called 'elite empowerment' led to the Broad Based Black Economic Empowerment Act of 2003 which issued ten codes of good practice to extend 'empowerment' beyond black equity ownership and management by incorporating elements such as preferential procurement, skills development and socio-economic development.

The change implied that access to lucrative investment opportunities would no longer be based on political connections but be regulated on the basis of race. Through the need to access government procurement and licensing, business was incentivised to strike deals with and sell shares to black people regardless of their political influence. However, critics lament that this shift has done little to move the impact of empowerment away from 'crony capitalism' towards genuine small business development and entrepreneurship.

It is true, though, that the number of black businessmen on boards or serving as CEOs of large companies has increased significantly. In 1992 there were only 15 black directors of listed companies; by 2012 there were 1,046. Black businessmen also head major corporations, such as Sifiso Dabengwa of MTN, Sizwe Nxasana of FirstRand, Sipho Nkosi of Exxaro, and Patrice Motsepe of African Rainbow Minerals. The number of black middle and senior managers also increased, but critics are correct in saying that BEE has created a culture hostile to entrepreneurship by legitimising an environment of racial entitlement, with a number of black millionaires having made their money through empowerment deals.

Symptomatic of this has been the rise of 'tenderpreneurship,' an apparently widespread practice whereby networks of politicians and civil servants manipulate state procurement to award contracts to blacks with whom they have familial or personal connections,

BEE has created a culture hostile to entrepreneurship by legitimising an environment of racial entitlement

regardless of qualifications and the illegalities involved. Tenderpreneurship is an instance of a broader culture within ANC ruling circles, which are highly ambivalent about business.

Thus, while the black middle class is penetrating corporate employment in larger numbers, it is otherwise overwhelmingly tied to the state. Ironically, while the black middle class may have been enriched, it is arguably the white middle class which – forced into more entrepreneurial ways by BEE – has become the more empowered.

### Taxation and Debt

Overall, direct taxation on individuals and businesses accounts for the bulk of state income (56.5 per cent in 2012/13), largely drawn from income tax (34 per cent of tax revenues), and that paid by corporations (20 per cent). Indirect taxes, most significantly Value Added Tax (VAT, contributing 26 per cent) are paid by all, regardless of income.

The number of registered income taxpayers has grown from 4.8 million in 2006 to 13.7 million in the 2012/13 tax year. Only in part does this reflect a larger middle class; it is principally due to the requirement since 2010 that employers register all employees for tax purposes, regardless of income. Indeed, in 2013 only 5.1 million individuals were required to submit tax returns, compared with 4.8 million in 2006, with over 95 per cent doing so. These are the individuals on whom the direct tax burden most immediately falls. Their relatively small number is regularly contrasted with the rising number of recipients of social grants (15.3 million in 2013), with social protection accounting for 16 per cent of the national budget. Entrenched high unemployment and poverty suggest that the costs of social protection are set to rise, alongside continued high expenditure in areas such as health and education.

The skewed tax structure has resulted in what is often described as a heavy squeeze on middle class taxpayers. Indeed, financial commentators argue that the tax environment for lower and mid-level earners (the vast majority) has worsened considerably since 1994. The government is also continually attempting to widen the tax net. However, its options are limited. Tax increases, especially if levied in unfamiliar forms (such as the E-Tolling scheme in Gauteng, which united the middle class and trade unions in opposition) may incur a heavy political cost. Further, it cannot be unaware that it is the black middle class which is particularly compromised by the high tax levels.

The middle class squeeze is characterised not only by income tax, but by an array of other expenditures. Middle class South Africans of all races often feel obliged to pay for additional services, such as private security, schooling at private or upper-tier government schools for their children, and medical insurance. Furthermore, costs of ownership in developed, formerly whites-only areas – such as municipal rates and taxes and electricity and water charges – are high and have risen markedly.

The rapidly changing racial complexion of formerly exclusively white suburbs is the most visible indication that the black middle class evinces the same desire for house ownership as its white counterpart. The proportion of black owners who own mid-value and higher homes outside township areas grew from 13 per cent in 2003 to 19 per cent in 2013, while overall black ownership of all residential property grew from 37 per cent to 42 per cent during that period. The costs of middle class life are also higher for black South Africans. Whites and to a lesser degree Indians and Coloureds can rely to a degree on inter-generational wealth, even if only as financial assistance from their parents. However, blacks are often expected to assist aged parents, pay for the schooling of younger siblings,

Financial commentators argue that the tax environment for lower and mid-level earners (the vast majority) has worsened considerably since 1994

and make other contributions to the extended family. This makes saving towards assets or building a nest egg difficult.

Levels of debt are high and rising. The lion's share has reportedly been incurred by, mainly black, middle-income South Africans earning between R8,200 and R22,800 a month, who account for R600 billion worth of household debt, only 40 per cent of which consists of mortgage bonds. The rest is owed on cars, credit cards, personal loans and overdrafts, the overall levels of debt encouraged by the low interest rate regime of recent years, which further squeezes the aspirational middle class.

## Education and the Middle Class

The education system has been dramatically transformed in the past 20 years. Schools, colleges, technikons and universities were opened to all races and the National Schools Act of 1996 provided for both public and independent schools and decentralised educational control through the establishment of school governing bodies. Curricula were reformed, new forms of assessment, qualification and certification introduced, and an ambitious exercise was undertaken to redistribute teachers from urban to rural, and white to black, schools. The university system was also rationalised and reorganised, with strong emphasis on widening of opportunities to 'historically disadvantaged' students from poor and black backgrounds.

The results have been mixed. A recent review of the public schooling system notes that while 'equity and redress have been the major drivers for education transformation', with massively increased enrolments in schools from the late 1990s, it had still resulted in 'low levels of achievement'. In tertiary education the student population nearly doubled between 1994 and 2011, the proportion of black African students rising from 40 per cent to 66 per cent and that of whites declining from nearly half to 21 per cent. The number of people graduating annually also nearly doubled between 1996 and 2010, from 85,989 to 153,325.<sup>47</sup> However, dropout rates are high. Research from the Council for Higher Education showed that of people who had enrolled for university degrees (except for the correspondence university of Unisa) in 2006 only 46 per cent had graduated by 2011.<sup>48</sup>

Although large swathes of the public schooling system are dysfunctional it still contains pockets of excellence, and some public schools are considered among the best in South Africa. However, these are almost all schools that were reserved for whites during apartheid. They now benefit from being able to charge fees, which allows them to pay for extra staff, keep well-maintained grounds and offer extramural activities. These schools are increasingly racially mixed, but class has now become the primary determinant of who can gain access to them. At the same time schools in the most disadvantaged (black, rural and township) areas have remained distinctly black, poorly resourced and too often poorly staffed.

Something similar has occurred in tertiary education. A recent study at the University of Cape Town found that about a third of its black graduates had come from families where at least one parent had themselves attended an institution of higher learning, pointing to the growing significance of inter-generational trends in the reproduction of the black middle class. In addition, research by the Research Group on Socio-economic Policy at the University of Stellenbosch, led by Professor Servaas van den Bergh, showed that black South Africans who had tertiary education gained from opportunities as South Africa

Overall levels of debt have been encouraged by the low interest rate regime of recent years, which further squeezes the aspirational middle class

democratised in the 1990s. Their counterparts who had no higher or inferior education were generally left behind in the race to become more prosperous.

The private education sector has also grown. During the first decade of democracy the private schools sector became almost three times the size of what it was at the beginning of the transition in 1990, and far more diverse, with a wide range of different religions, philosophies and educational approaches available. While continuing to provide education for the elite and, especially at the higher levels, reflecting 'white flight' from the public schooling system, private schools now provide a major draw for black students not only from middle class backgrounds but also from working class and informal sector families.<sup>49</sup>

Similarly, there has been a substantial increase in private higher educational provision, 100,000 students being registered in some 145 institutions by 2000. As at school level, the rapid expansion of private higher education is, above all, a product of black desire for upward social mobility, and its graduates are providing a steady flow of recruits to at least the lower ranks of the black middle class.

### Politics and the White Middle Class

When the National Party was at its height during the 1980s, its backbone was provided by the white middle class of both Afrikaner and English-speaking backgrounds. It also drew the majority of white support in the first open election of 1994. However, in the 1990s the party began to flounder, and was overtaken as biggest opposition party by the Democratic Party (DP) in 1999. The DP had won just 1.7 per cent of the vote in the 1994 election. Faced with extinction the DP undertook an aggressive campaign before the 1999 election and saw its support jump to nearly 10 per cent.

Currently, the white middle class has largely found its home in the DP's successor, the DA, which also draws much support from Coloured and Indian voters. Under its present leader, Helen Zille, the party has sought to widen its appeal to blacks, not least by recruiting increasing numbers into its ranks and, despite ongoing accusations of being 'a white party', has firmly established itself as the major party of opposition. In 2009, it not only won over 16 per cent of the vote and nearly as many seats in parliament as all other opposition parties put together, but won control of the Western Cape provincial government. In 2014 it raised its vote share to 22.23 per cent and 89 seats in the National Assembly. Shortly after the election Helen Zille claimed that about 760 000 blacks had voted for the DA.

The primary function of the DA so far has been to provide whites, including the middle class, with a loud and assertive voice. White South Africans, unlike their counterparts in Zimbabwe after independence, have stayed involved in politics and ensured that they have a strong vehicle for their 'voice'.

### Politics and the Black Middle Class

The black middle class provided leaders, intellectuals and members to all the major political currents that vied for support during the latter decades of apartheid: from the Black Consciousness movements, civic movements, the United Democratic Front, Inkatha and other political parties in the 'homelands.' Nonetheless, historically, it was the

Private schools now provide a major draw for black students not only from middle class backgrounds but also from working class and informal sector families

ANC and the wider Congress tradition that appealed most to the black middle class. The members of this class were comfortable with the party's gospel that it was a home for all South Africans across race and class, albeit under predominantly African leadership. This situation remains and the ANC seems to be the party of choice for the majority of middle class blacks.

Via its strategies of deployment, equity employment, and BEE, alongside its permissive attitude to tenderpreneurship, the ANC 'party machine' has transformed itself into 'the party vanguard of the black middle class'. Even when losers in factional battles actually leave the party, as when the Congress of the People was formed in 2008, these parties remain 'within the family' and their supporters are welcomed back into the ANC after passions cool. Opposition parties face an uphill struggle to attract the core of a black middle class whose interests are tied to the ANC's party-state.

A number of surveys confirm this. The primary conclusion of a survey of the black middle class by the late Lawrie Schlemmer in 2003 was that 'the race-based transformation policies of the ANC have created an exceptionally strong bond between it and the African core middle class'. An analysis of voter attitudes since 1994, by Collette Schulz-Herzenberg, found that the proportion of ANC partisans among what she terms the owner/employer and professionals/supervisory occupational categories increased over time

However, it has become increasingly clear that this support is not unconditional. Surveys show that though the black middle class retains 'a powerful sense of solidarity with the ruling party', it simultaneously expresses numerous misgivings about ANC performance in power.

The DA, meanwhile, has encouraged the rise of a black leadership cohort among its ranks, a necessary strategy if it is to realise its ambition of eventually challenging the ANC for power. Yet ironically, the more it succeeds, the more likely it is to become like the ANC. A DA with a large number of posts in parliament or in provincial government to offer may also find itself tainted by the crony capitalism that has infected the ANC. In addition, the DA, as it seeks black support, will need to adjust some of its fundamental policies (black members recently secured the party's commitment to 'broad based' BEE to address the legacy of racial inequality). This may cause tensions and splits along racial lines to emerge in the party.

These dynamics suggest that a concerted exit by the black middle class from the ANC may have started, but only to a limited extent. However, widespread criticism of the ANC after nearly 20 years in power, much of it by black commentators, indicates that the black middle class is not reluctant to use its voice, and in so doing is contributing volubly to the making of a noisy democracy.

Widespread criticism of the ANC after nearly 20 years in power, much of it by black commentators, indicates that the black middle class is not reluctant to use its voice

### The black middle class and the 2014 elections in South Africa

The 2014 national elections would seem to indicate that the black middle class remains broadly behind the ANC, although there are signs of change. The ANC's vote share fell to 62.15 per cent, securing 11.4 million votes (200 000 fewer than the 2009 election). It likely lost support to the DA, as well as the Economic Freedom Fighters (EFF) a radical, populist movement led by a former president of the ANC Youth League, Julius Malema. The EFF won over 1 million votes – 6.4 per cent. It fared best in the provinces of Limpopo and North-West where it emerged as the second biggest party. It also won 10 per cent of the vote in South Africa's richest and most urbanised province, Gauteng. According to Steven Friedman, a political scientist: 'It remains likely that EFF voters were, in the main, not the poor and marginalised but the middle class and the connected.'<sup>50</sup>

The ANC fared poorly in Gauteng's three metropolitan municipalities. In Johannesburg and Ekurhuleni (East Rand), its support fell below 60 per cent (54 per cent in Johannesburg and 56 per cent in Ekurhuleni), and in Tshwane (Pretoria) to 50.96 per cent. In the previous national elections, in 2009, the ANC's vote share in all of these three municipalities had been above 60 per cent, and as high as 67.5 per cent in Ekurhuleni. This would suggest that urban South Africans (many of whom are middle class) are increasingly turning away from the ANC. Its support also fell below 50 per cent in the Nelson Mandela Bay Municipality (Port Elizabeth) in the Eastern Cape, another metropolitan municipality.

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### The Wider Politics Of The Middle Class

South Africa is notorious for its extravagant levels of inequality but since 1994 there has been rapid upward social mobility for significant segments of the black population. South Africa is thus becoming more visibly a class rather than race-based society. However, this is also resulting in strong societal tensions between 'insiders' and 'outsiders'. The middle class is often seen as a force for societal stability – the question in South Africa is not whether the middle class is willing to play this role but also whether it is sufficiently weighty, coherent and united to do so.

The caricature of the middle class as increasingly privatised, cut off from the impoverished mainstream of society, is not only uncomfortable but inaccurate. It is reinforced by reprehensible behaviour by elements of, especially, the upper and upper middle classes, such as vulgar conspicuous consumption. Furthermore, criticism of the government by the white middle class often takes on a racially-imbued carping tone. Nonetheless the caricature is just that - a caricature that does not do justice to the extensive engagements of the upper and middle classes in governance at all levels of society.

In practice, exit options are limited. For the upper and upper middle classes, those with significant wealth or internationally marketable skills, emigration is always an option. It is a choice which has been exercised by a fair number of whites since 1994 (and many blacks), yet the overwhelming majority has chosen to stay, work and play in South Africa's democracy. There they join the increasing numbers of their black counterparts in paying taxes (and, doubtless, avoiding them when they can) and correspondingly exercising their right to representation. Apart from direct involvement in politics, where middle class representation is predominant across the political parties, the upper and middle classes give vent to voice – ensuring that their concerns are heard and their interests attended to.

The extensive alignment of the black middle class to the party-state and the continuing social distance between black and white segments of the middle class throws doubt on the potential for convergence within party politics as they currently operate. This suggests

South Africa is thus becoming more visibly a class rather than race-based society



that we need to look beyond party politics for the involvements of the upper and middle classes in democratic governance.

There is an uneasy coexistence of largely racially-skewed political and corporate elites, reflective of the country's divided history, who, though differing on lesser-order issues, agree on major fundamentals or 'common-sense' centred on the functioning of a market economy. And the corporate sector has numerous channels for ensuring that its views are heard, ranging from the formal, such as participation in formal business-labour councils, through to the informal, conversations between high-powered individuals who hold influence in the ANC but are also successful businessmen, such as Patrice Motsepe, Tokyo Sexwale, and Cyril Ramaphosa. Following Ramaphosa's appointment as deputy president, destined to act as de facto Prime Minister and possibly to succeed Zuma as President in 2019, it seems unlikely that the government will move away from its cautious financial management of the economy. If it did, the large corporations and private investors would exercise their 'disciplinary' power - that is, their capacity to withhold investment and even to export capital.

Middle class citizens, of whatever racial hue, engage with national and local politics as taxpayers, professionals, trade unionists, civil society activists, residents and parents and with corporate power as both employees and consumers. Within this context the black middle class is becoming increasingly vocal and participatory, contributing energetically to the public discourse about anything and everything as editors, journalists, commentators, anchormen, letter writers and bloggers, regularly venting their spleen on talk radio and in the social media. Many are as virulently critical of the ANC, if not more so, as the DA or other parties of opposition, and carry more punch precisely because of where they come from. Increasingly they are playing an active role within civil society organisations and making their way forward in professions such as law and accountancy. Consequently, just as poor communities across the country are making their voices heard in 'service delivery protests', so it is likely the black middle class will find common cause with their white counterparts in registering protests about discontents - about schooling, transport, municipal service, environmental issues or whatever. In short, even if more black middle class voters stop short of actually voting against the ANC, we can be assured of their growing demands for accountability - hopefully from the private sector as much as from the party and state.

As the middle class becomes more assertive various scenarios present themselves. A first is that rising class tensions within the Tripartite Alliance of the ANC, trade union movement Cosatu and the SA Communist Party may lead to a split, with trade unionists and workers hiving off to the left. Were this to happen, various commentators envisage a significant rearrangement of the party system, especially a divergence between 'nationalist' and 'socialist' tendencies within the ANC. In turn, this is often said to open up the prospect for coalition (or coalescence) between 'nationalist' elements of the ANC and pro-market opposition parties, the socialists providing the basis for a party of labour, which will all result in a more competitive party system. These developments may already be under way after the announcement in May 2014 of the formation of a 'United Front' by the National Union of Metalworkers (previously an ANC ally) with an eye to forming a workers' party to contest future elections.<sup>51</sup> If this scenario were to come about, the further suggestion is that the large body of the middle class would stay with the 'nationalist' wing of the ANC, under whatever label it might choose to operate. While at one level this is attractive, the transformation of the ANC into a more explicitly class-based party could prove as much a recipe for class conflict and greater instability as for greater democracy.

The black middle class is becoming increasingly vocal and participatory, contributing energetically to the public discourse about anything and everything

In a society characterised by appalling inequality and social exclusion from the material benefits enjoyed by a relative few, the middle class will have a critical role to play in ensuring the long term viability of South African democracy.

## Key Insights from the Workshop

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In all three countries and more generally in the world of development policy, many policy makers and those concerned with fighting poverty tend to focus research and interventions on the poor and unemployed. Apart from cataloguing the income levels of those who are said to have achieved middle class standards of living, the middle class has mostly been ignored as a focus of policy-related research. At the same time, much is expected of this class. Its members are required to pay a large proportion of taxes, comprise the entrepreneurial class, defend democracy, stabilise society and demand better governance, accountability and service delivery from the state.

At this CDE workshop, four speakers from three very different developing countries shared their perspectives and, while there is much that we still need to learn, they provided many important policy-related insights. It is clear from the discussion that it would be unwise to simply expect the very broadly defined middle classes to promote stability, development and democracy in their respective societies. In each case, whether they take on these roles depends on far more than just achieving a certain income level. Here we consider some of the issues that emerge when we consider the various functions the actual middle classes of India, Kenya and South Africa could be expected to fulfil.

### Middle Classes and Democracy

Members of the middle classes who feel economically secure and can draw on savings and family support when they run into trouble are likely to espouse the values and demand the civil and economic freedoms of constitutional democracy. However, this may not be the case for those who recently achieved middle class status, have few support systems but many obligations, and are vulnerable to falling back down the income ladder. In fact, economically vulnerable lower middle classes can become a source of instability and, from either the political right or the left, demand greater state protection and restrictions on freedom if they feel that it will keep them from sliding back into poverty.

These factors may be behind the performance in South Africa's May 2014 general election of the populist Economic Freedom Fighters (EFF) – which has been branded both as the extreme right and the extreme left by its various opponents. Although the EFF gained a smaller share of the vote than the ANC break-away party, COPE in the previous election, it did win a 10 per cent share in South Africa's richest and most urbanised province, Gauteng. According to some political commentators the EFF nationally picked up votes from the poor and marginalised as well as some disaffected people in the lower (and some higher) rungs of the middle class.

In addition, ethnicity, race and caste continue to shape attitudes and influence electoral behaviour amongst middle classes in India, Kenya and South Africa. It is clear in all three

The tax contributions of the middle class are vital for building effective states, but experience in all three countries suggests that people will be less likely to pay taxes voluntarily if they see few benefits for themselves

countries that ethnicity and other historically-determined loyalties do not always or quickly disappear as people earn higher incomes.

This reality emerges particularly strongly from Kenya, where a survey of young middle class voters in the run up to the 2013 elections revealed that, despite initially expressing a preference for candidates who stood for better governance and the fight against corruption, they ultimately voted for the party led by Uhuru Kenyatta. As members of the Kikuyu ethnic group they worried that voting against Kenyatta's broad but Kikuyu dominated ethnic coalition would allow a non-Kikuyu to win the Presidency.

In the 2014 Indian national elections, the Bharatiya Janata Party (BJP) won enough seats to govern on its own, the first time since 1984 that any party has done so. While some commentators have focussed on the Hindu nationalist appeal of the BJP and its candidate for Prime Minister, Narendra Modi, the party's election manifesto spoke to Indian voters concerned about the seeping corruption and anaemic economic growth that marked the past five years of Congress Party rule. In stark contrast to Congress's focus on expanding entitlements, the BJP emphasised economic growth, employment, infrastructure and improving the business environment, while Modi stressed his record as an effective leader of the state government in Gujarat.

In South Africa, the results of the 2014 national elections suggest that the black middle class remains broadly loyal to the ANC, but the ANC's vote share nevertheless fell to 62.15 per cent (from 65.9 per cent in 2009). At the same time, support for the largest opposition party, the Democratic Alliance, grew from 16.66 per cent to 22.23 per cent.

The ANC fared worst in the metropolitan areas, falling from above 60 per cent to unprecedentedly low figures in the two most important cities in Gauteng: Johannesburg (54 per cent) and Tshwane (51 per cent). Its support fell below 50 per cent (49.17 per cent) in the Nelson Mandela Bay metropolitan municipality (Port Elizabeth) in the Eastern Cape. While it is not clear at this point what exactly accounts for these shifts, it is likely that many urban, mainly middle class voters are shifting their support as a result of the less-than-satisfactory performance of the ruling ANC.

## Middle Classes and Economic Growth

Apart from their substantial human capital and entrepreneurial contributions, the middle classes can be expected to contribute to economic growth either by increasing their consumption or by raising their savings rates. Rises in consumption can generate bursts of growth in the short run, but a rise in savings is more important for long run growth as it finances the investments necessary for improvements in productivity. Increased consumption by new members of the middle class has been an important element in the economic performance of all three countries. If consumption rises in response to a realistic expectation that lifetime incomes will rise then it can be both rational and desirable. If, on the other hand, rising consumption is based on the conviction that tomorrow does not matter, or if the rising consumption is based on overly-optimistic assessments of future income, then both the individual household and the national economy can run into serious trouble.

There is growing concern about how sustainable rising consumption levels are, as rising indebtedness, especially in Kenya and South Africa, threatens to push many back down the income ladder while also undermining any hope for a savings boost.

Increased consumption by new members of the middle class has been an important element in the economic performance of all three countries, but there is growing concern about how sustainable this process is

Kenya has experienced a consumer boom over the past few years, largely driven by the middle class and accompanied by rising levels of debt, much of it for consumption items. In South Africa levels of debt are high and rising. The lion's share has been incurred by, mainly black, middle-income South Africans earning between R8,200 and R22,800 a month, who account for R600 billion worth of household debt. Only 40 per cent of this debt consists of mortgage bonds. The rest is owed on cars, credit cards, personal loans and overdrafts. These growing levels of debt have been encouraged by the low interest rate regime of recent years, which, in the face of rising interest rates, may reduce people's incomes and even squeeze them out of the middle class.

Emerging middle classes should have access to credit and have aspirations as consumers, but there can be a downside when debt levels rise too quickly. The increase in consumption debt in the three countries in the past few years could – unless modified by market-related interest rates – reduce their potential for long run growth and lead to severe disruption in the expansion of the rising middle classes.

### Middle Classes and Politics

A commonplace assumption is that middle class people have more ability than poorer people to focus on issues that go beyond basic survival, to mobilise effectively against bad policies and to demand more say in decisions made by the state. These assumptions are predicated to some extent on middle classes enjoying a certain level of independence from the state.

In all three countries the state has been heavily involved in the growth of middle classes. Large-scale public sector employment and dependent 'entrepreneurs' who rely on state tenders have been features of this. India made a decisive break with this, through the dramatic liberalisation policies of 1991 which swept away many aspects of the 'Licence Raj' with its central planning, protectionism and state control. At first, Indian middle classes responded to the rising incomes and greater social mobility which were the results of liberalisation by disengaging from politics and operating outside the state rather than demanding better services from it. However, there is a growing sense that this is changing. Middle class involvement has been particularly evident in recent protests against corruption and crime as well as the 2013 Delhi region and 2014 national elections.

Despite continuing dependence of middle classes on the state in Kenya and South Africa, things may be changing there too. In Kenya, during the time of the Kibaki administration (2002-2007), middle class citizens had a strong influence on policy making and the liberal 2010 constitution is seen as fundamentally shaped by middle class influence. Young members of the Kenyan middle class are today leading Twitter and other social media campaigns against poor service delivery

In South Africa middle classes are participants in policy issues at all levels of society. Middle class citizens of all races engage with national and local politics as taxpayers, professionals, trade unionists, civil society activists, residents and parents and with corporate power as both employees and consumers. Within this context the black middle class is becoming increasingly vocal and critical, contributing energetically to the public discourse as editors, print and broadcast journalists, commentators, letter writers, bloggers and enthusiastic users of social media. Many are as sharply critical of the ANC as the opposition parties (and critical of the opposition too). Increasingly they are playing a

It is not enough to  
assume that ethnicity  
and other divisive  
identities will disappear  
as people earn higher  
incomes

leadership role in civil society organisations and making their way forward in professions such as law, engineering and accountancy.

As well as democratic participation, a further contribution that middle classes are expected to make to public purposes lies in paying their taxes and thereby providing the revenue the state needs to provide services, pay salaries and hire competent bureaucrats. In all three societies the middle classes make up the bulk of taxpayers but a number of factors are creating growing disenchantment.

In India only 33.2 million individuals pay tax, between 2 and 3 per cent of a population consisting of 1.3 billion people and 250 million households. Only 0.38 per cent of these taxpaying individuals (fewer than 100,000 people) declare an income above US\$35,000 per annum. This almost certainly means that many thousands of Indians are either under reporting their income or not reporting their income at all. Most individual tax in India is therefore paid by a few honest high earners and the small minority of the workforce (approximately ten per cent) working in the formal sector, whose tax contributions are automatically deducted from their payrolls. This, along with the fact that many taxpayers feel that they receive little or no benefits from the taxes they pay, is creating growing unhappiness that may have political repercussions.

Kenya currently collects the equivalent of 22 per cent of GDP in taxes, with the burden falling heavily on the lower middle class income brackets. This trend has been reinforced since a widening budget deficit pushed Kenya's government into finding additional sources of revenue, principally through Value Added Tax (VAT) on previously exempt staple goods. The introduction of these new taxes led to widespread protests in 2013/14, sharpened by the knowledge that richer Kenyans have – through aggressive tax planning – frequently found ways to avoid paying their full due.

In South Africa, direct taxation on individuals and businesses accounts for the bulk of state income (56.5 per cent in 2012/13), largely drawn from individual income tax (34 per cent of tax revenues), and that paid by corporations (20 per cent). Indirect taxes, principally VAT, contribute 26 per cent and are paid by all, regardless of income.

In 2013 only 5.1 million individuals (about ten percent of the population) were required to submit tax returns with over 95 per cent doing so. These are the individuals on whom the direct tax burden, in the form of income tax, most immediately falls. Their relatively small number contrasts sharply with the rising number of recipients of social grants (15.3 million in 2013), with social protection accounting for 16 per cent of the national budget.

This skewed tax structure has resulted in what is often described as a heavy squeeze on middle class taxpayers. Financial commentators argue that the tax environment for lower and mid-level earners (the vast majority) has worsened considerably as income tax brackets have not been adjusted adequately to reflect the combination of higher local inflation and the depreciation of the rand. The effect of this 'fiscal creep' is that personal income tax rates for anyone earning below R1,5 million are now reported to be 'hopelessly uncompetitive by international standards'. At the same time, middle class tax payers are getting less back from the state, in terms of the quality of public goods and service delivery. Widening the tax net, ensuring compliance and simplifying and rationalising tax structures have been among the most striking successes of post-apartheid governments. It has been this more than relentless tax rises that has so far financed a very high social expenditure for an economy the size of South Africa's. However the number of income tax payers is still very small and in an environment of low growth and high unemployment the government's options for future tax revenue are limited. Tax increases may incur a heavy political cost, and protests (involving middle classes from the trade unions to the

The conversation is often too general and more work is required on different components of the middle classes and how this affects their attitudes, political engagement and how they engage with other members of society

professions) have emerged over the (badly managed and communicated) imposition of highway tolls in the Gauteng province.

## Concluding Thoughts

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Middle classes in India, Kenya and South Africa, however defined, are crucial for ongoing development, but how these classes impact on democracy and development is not as straightforward as many policy makers and experts might think. CDE's Nairobi workshop pointed to these complexities and provided many reasons why defining and understanding the middle classes of developing countries deserves more attention:

- 'Middle classes' is a slippery term in the developing world. The people this term encompasses can range from individuals and households recently emerged from poverty with many of them in danger of slipping back into it, to well-established affluent households with developed-country standards of living. The conversation is often too general and more work is required on different components of the middle classes and how this affects their attitudes, political engagement and how they engage with other members of society. As a rule, anyone talking about middle classes in a developing country should be asked to define what they mean.
- Faster economic growth, expanding educational and economic opportunities and upward mobility will see more independent middle classes emerge, that are publicly active, vocal in their demands and less easy to control. In their own and in their countries' interests, governments should resist the temptation to see this as a threat and rather work to adapt as the demands of their constituency change with social mobility.
- State-dependent middle classes are likely to hold back changes required to make states more accountable and economies more competitive and dynamic. They can also sometimes be a factor pushing for higher wages in the public sector irrespective of improvement in service delivery or what impact this has on other aspects of the budget affecting poorer people.
- The expansion of middle class consumption can boost economic growth, but can at the same time threaten long-term growth prospects if it leads to rising indebtedness. Careful macro and micro-economic management in respect to interest rates and financial stability is required to manage this process in an optimal way.
- Those who have just made it out of poverty, the so called floating classes, are frequently focussed on not slipping back and may lack the security and confidence to pursue long-term middle class interests like demanding an accountable state and pushing for more access to employment and entrepreneurial opportunities. The emergence of such classes, especially when led by young urbanites, can shake up existing political alliances and may be a force for change. But of course they hold real dangers as well. Middle class voters, especially when economically vulnerable, will sometimes contribute to the strengthening of ethnic or nationalist movements, or populism in the form of support for policies of extreme redistribution and opposition to market reforms promoting productivity and competitiveness.
- Governments seeking a more tax-compliant middle class must find ways to strengthen tax enforcement and the efficiency of tax agencies. This requires state

Development practitioners and experts need to understand the changing nature of the middle classes in their countries

capacity as well as gaining and maintaining taxpayers' trust that their taxes will be used for legitimate ends. To do the latter, states must focus on reducing corruption and finding cost-effective ways to deliver services.

In all three countries the middle classes are contributing positively to democracy and development. However, there is room for improvement. India, Kenya and South Africa would all benefit from more secure middle classes, less dependent on the state. This can be achieved by focusing resolutely on the kinds of market reforms that are necessary in all three countries for stronger more entrepreneurial and labour intensive economic performance. Higher growth, an expansion of economic opportunities and more effective governments will all lead to larger, more independent middle classes. In addition, education reform is essential. In all three societies poorer households find it difficult to access quality education that their children need to compete for better paying jobs. Expanding access to quality education will therefore enable more people to move out of poverty and create dynamic societies with growing middle classes.

The growing focus on middle classes, defined variably and very widely, tends to ignore questions about the working class. If the middle class has grown spectacularly in Brazil for example, where does this leave our understanding of the working class? Where does it fit exactly within the very broad definition of middle class in that society? And in South Africa if anyone with a formal full time job is in the literal middle, or even higher in our society, this has profound implications for the "organised working class" who are not the poorest in the society by a long way.

Changing patterns of growth, employment and the organization of work, especially under conditions of globalisation have rendered obsolete many of the traditional assumptions about working and middle classes. This means that the 'working class' is as slippery a term as middle class. The idea that the unemployed, the informal sector and semi-skilled, skilled and even lower professional workers in the formal sector can be covered by the uniform category 'working class' simply does not fit reality. At the same time, people who are middle class in terms of their place in the income distribution and perhaps even by virtue of possessing tertiary qualifications may be militant trade unionists.

In sum then, while there are no simple or easy definitions or assumptions about class, we should think hard about middle classes and what their growth means for policy, politics and society. In our view, the middle class should be an important focus in how countries think about promoting development. Raising people above the poverty line is a vital starting point. However this needs to be coupled with far more attention on the dynamics of how to encourage social mobility and the expansion and consolidation of middle classes.

A more dynamic focus on growing a stable middle class requires a detailed understanding of what holds people back, either through a lack of economic opportunities or an inability to take advantage of what opportunities there are. Focussing on liberating such potentially productive and entrepreneurial individuals would mark an essential broadening and deepening of democracy in all three countries: from formal political rights to the empowerment of economic freedoms and educational opportunity.

In all three countries the middle classes are contributing positively to democracy and development

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