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THE TUTWA BRIEF

THE SHIFT IN PERCEPTION OF AFRICA AS SEEN THROUGH THE PRISM OF THE MIDDLE CLASS

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During the last 10 years the perception of the African continent has swung first from pessimism, to optimism, and even exuberant enthusiasm. Subsequently, through the likes of Dr Mohamed 'Mo' Ibrahim's advocacy of Afro-Realism and last year's best selling author Professor Thomas Piketty[1], the perception pendulum is now being pushed slightly in the direction of both more realism and increased scepticism about capitalism's ability to propel Africa's poor people into the ranks of the mass consuming middle class as predicted by WW Rostow's (1960) classic 'Stages of Economic Growth' Model.

The purpose of this Tutwa brief is to take the reader through a decade old journey by presenting some of the key underlying findings and arguments which has led to a wiser and more realistic view on Africa's prospects.

A DECADE OF STAGNATION FOSTERS AFRO-PESSIMISM

During the period 2002–2004 a team of International Labour Organization (ILO) economists working on the *World Employment Report 2004–05*, wrote that the bulk of the world's extreme poor live in rural Asia and Sub-Saharan Africa (SSA). Most of their economic activity was in agriculture. Furthermore, US$[2]1 (US$2) a day total poverty in SSA was estimated to be 45.7% (76.4%), up from 44.1% (75.8%) in 1990, and was projected to be 44.6% (75.5%) in 2015 (ILO, 2014:23). Their estimations of SSA's US$1 and US$2 a day working poverty shares in total employment were likewise not very optimistic (ILO, 2004:24). We also found that only the industrialised economies and the Middle East and North Africa (MENA) regions experienced a notable increase in the employment-to-population ratio over the 10-year period covered. For SSA, from 1993 to 2003 the percentage change in labour productivity was -1.5%; the annual growth rate of labour productivity was -0.2%; and the annual gross domestic product (GDP) growth rate, at 2.9%, was hardly above the annual labour force growth rate of 2.8% (ILO, 2004:27). In other words, in the MENA region productivity levels in 2003 were still close to those in the region 10 years earlier, while SSA experienced declining productivity on average. The ILO team concluded that the MENA case should be taken as a perfect example of why, in the long run, decent employment creation and productivity growth have to go hand in hand with GDP growth. Only then will economic growth lead to poverty reduction.

A DECADE OF AFRO-PESSIMISM GIVES WAY TO AFRO-OPTIMISM/ENTHUSIASM

Today, more than 10 years later, on the surface there seem to be a sense of optimism in SSA, depending on who you talk to. Nevertheless, one cannot help but notice the emerging African middle class, a subject I analysed recently (Kingombe, 2014). I tried to capture the on-going debate as to whether Africa's middle class really was rising, or not, by analysing the actual size of the middle class. This brief provides an overview of some of the main arguments raised since then with the aim of proposing how to transcend sterile arguments, and look towards a forward looking Pan-African Inclusive Growth Agenda that could ensure a sustained rise of Africa's middle class.

The African Development Bank's (AfDB, 2011) definition of middle class is based on the average cost of living of about one billion people on the continent. It divides this definition of middle class into three categories:

- Those spending between US$2 and US$4 a day are considered the 'floating class', vulnerable enough to slip back below the international poverty line.
- Those earning between US$4 and US$20 a day are categorised as the 'stable' middle class.
- Within the stable middle class category are those spending between US$4 and US$10 a day, categorised as the 'lower-middle' class.

The ink was barely dry on the AfDB's 2011 paper when debate broke out as to whether Africa's middle class really was rising or not, and particularly about the actual size of the rising middle class. The starting point of the on-going debate as to the classification of who is middle class revolves around the following questions:

- Are they a real middle class or just strugglers, or
- Are they the above mentioned floating class?

My paper (Kingombe, 2014) is limited by the fact that it does not present new evidence nor does it provide new estimations based on existing data. It simply reviews the existing pro (e.g. AfDB, 2011; McKinsey, 2010 etc.) and contra (Freemantle; Rowden; Jerven, 2013 etc.) arguments and statistics. My purpose here is not to enter the sterile debate as to whether Africa is rising or not. Instead, I briefly discuss a new generation of papers that are going beyond this debate, by taking the literature a step deeper through the disaggregation of the overall household income/consumption figures, in order to better understand the characteristics of Africa's middle class.

The first paper was recently written by Simon Freemantle (2014), from Standard Bank Research, who seeks to quantify and add value to the discussion around the

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size, dynamics and shape of Africa's middle class. Using South Africa's Living Standards Measure (LSM) as a base, Freemantle breaks down households in 11 pivotal SSA economies to outline where they are located in four income/consumption bands: low-income; lower-middle-class; middle-class; and upper-middle-class. He found that between 2000 and 2014, six million new middle-class households were added in the surveyed countries, compared to just one million between 1990 and 2000. Second, despite meaningful income growth, the majority of households (86%) in the measured countries remain locked in a low-income band. Third, Nigeria towers above the others. Between 2000 and 2014, Nigeria's middle class swelled by 600% in total: today, Nigeria is home to 4.1 million middle class households, covering 11% of the total population, and more than half of these 11 countries' middle class households are in Nigeria alone. Freemantle (2014) also attempts to answer the key question: What is a typical middle class family in this measure? This is done by considering South Africa's Audience Research Foundation's *All Media and Products Surveys* in describing the product ownership, spending patterns and media consumption, of South African households in the various LSM bands. Freemantle clearly shows that spending differs widely by income band between ZAR[3]10–30 000 per month versus under ZAR3 500 per month when it comes to: education; communication; clothing; insurance; health; food and non-alcoholic beverages; transport; rentals and utilities.

Together with Novella Bottini and Solène Dengler, from The Legatum Institute Prosperity Index team, I wrote a chapter for the 2014 *Africa Prosperity Report*, which provides a comprehensive view of what's happening in Africa beyond traditional economic indicators. It considers a broad set of indicators that tell us not only how nations perform economically but in vital areas such as education, governance, health, safety and security, and more. In our chapter entitled 'African middle class, their values and characteristics' we use data from the Gallup World Poll and identify the middle class using a combination of a monetary approach and non-monetary characteristics, including sets of values. Our analysis shows some general patterns which differentiate the middle class from the poorest one. To unveil the non-monetary characteristics of the middle class, we compare the middle class responses (i.e. third or fourth quintile depending on the country) to those of the poorest quintile in 2013 (or the latest year). Our analysis shows that, among the sample of African countries we considered, the middle class has better education, lives in better houses, has better access to media, and more stable jobs. Moreover the middle class is generally more satisfied with their living standards and education; has more confidence in the government; and has a better perception of the job and business environment.

The final study by Mthuli Ncube and Charles Leyeka Lufumpa (2014) looks at how people become middle class and remain there. It is based on a consumption model developed through a series of thematic chapters. The authors, as with previous studies, also define the middle class according to consumption and ownership of items such as a television set, car and refrigerator, the type of flooring in dwellings, access to electricity, sources of drinking water and types of toilets, *inter alia*. Based on a survey of 37 African countries, that polled nearly 800 000 households, concluded that most of the countries saw a rise in the size of the middle class over the past decade. The study further finds that 'Africa's middle class has increased in size and purchasing power as strong economic growth over the past two decades has helped reduce poverty.' Notwithstanding this success, many in the new middle class struggle to save for the future amid the consumption boom.

Finally, among additional signs of Africa's economic awakening is the growing visibility of African billionaires and millionaires as shown in Kingombe (2014). According to the ABfD (2011), one out of three Africans currently belong to the middle class. Potential investors and traders are told this will only get better with time, whereas the 'trickle down effect' will eventually take care of the poor and emancipate Africa. Thus, in that way the 'afro-optimism' even veers into 'afro-enthusiasm' (Nanga, 2014).

AFRO-REALISM: HAS AFRICA'S TIME REALLY COME?

So far, the positive narrative of 'Africa rising' has prevailed, led by investors who have seen in the continent a new frontier for capitalism. Indeed, it is an exciting time to be in Africa because of the size of the untapped opportunities. Africa has witnessed sustained growth for about two decades in proportions that parallel the Asian tigers. The Africa growth renaissance is not accidental, but generated by fruits of extensive economic and financial sector reforms. But there are still many challenges to resolve. 'Africa Rising is the 'good news' part of the message; Africa Watching is the second part', according to Christine Lagarde, head of the International Monetary Fund. Africa, therefore, appears to be at a crossroads – it has enjoyed a good run, but the future looks less certain as economic headwinds such as lower commodity prices blow stronger. Overall performance is subject to the success of only a handful of key hub economies, most notably South Africa, Nigeria and Kenya. Jobs are lacking for a more educated generation, restless for opportunity as witnessed by the strong migration pressure on the Organisation for Economic Co-operation and Development countries. Fast economic growth is not translating into improved livelihoods for the majority, partially due to galloping demographic growth. As Donald Kaberuka, president of the AfDB, puts it when he wants to temper the optimism of many African leaders, 'you can't eat GDP'. Instead, rapid economic growth in many countries is simply fattening the rich. Without political leadership able to focus on longer-term growth and prosperity, rather than short-term personal gain, the past 10 years of economic and political progress, which is neither linear nor irreversible, could be in danger.

> **“ ... it has enjoyed a good run, but the future looks less certain ... ”**

ANTI-CAPITALISM SCEPTICISM ABOUT THE RISE OF THE AFRICAN MIDDLE CLASS

Some heterodox voices argue that despite the perceptible material improvements in virtually all African societies, such as the multiplication of new malls and supermarkets and the sheer number of mobile phones, constituting indisputable proof of the rising middle class, the much-lauded growth is far from being the path that leads to Africa's 'emancipation'. On the contrary, it is suggested that it represents a makeover of the mechanisms of domination and social injustice. The current optimistic and enthusiastic praise of African growth essentially lauds the profitability of investments no matter their source.

It is even argued that the current celebration of GDP growth in Africa is in fact the celebration of the on-going project that neoliberal imperialism had concocted for Africa. Critics argue that rapid growth has not had positive effects on the poor and public health services. While some admit that the middle class – associated with jobs in computer sciences, finance and business – is indeed emerging, the counter-argument is made that it merely constitutes a minority of the middle class, particularly the *superior* (i.e. stable) bracket (AfDB, 2011). Critics also argue that the percentage of the African population within this *superior* bracket, added to the so-called *low* (i.e. floating) bracket of the middle class, is not more significant than prior to the imposition of neoliberal Structural Adjustment Programmes – characterised by the freezing of wages, liquidation of enterprises, redundancies, etc. Finally, it is claimed that the emergence of the African middle class as a driver of Africa's economic growth, which stands out as an important milestone in Africa's contemporary economic history, does not go hand in hand with the capturing of serious social data collection.

WAY FORWARD: A NEW PROMISING APPROACH

While inequality was a hot research topic at the ILO from 2001 to 2004, with for example Dagdeviren *et al.*, (2002) concluding that a redistributive growth path is always likely to be superior to a distribution neutral path, it seems as though mainstream (neo-classical) economics and policy makers only now finally have opened their eyes to this social scourge thanks to Piketty (2014). He provides a carefully documented challenge to the belief that inequality is not a problem for public policy attention. Perhaps where this book will make the biggest difference is that it heralds a re-thinking of mainstream economics through the re-introduction of a new, more evidence based, real-life economics inspired 'political economy approach' in order to find answers to Africa's long-term evolution of inequality, its concentration of wealth, and the prospects for sustainable green and inclusive growth.

> **“ African leaders need to empower disadvantaged groups ... to enable them to engage economically and to be a part of Africa's growth ”**

Piketty suggests that the much higher levels of inequality in today's emerging markets, including Africa, will persist, leading to patrimonial capitalism of the past rather than subside, unless strong policy measures are taken to rein them in or unless countries experience wars, depressions or hyperinflations. African leaders need to empower disadvantaged groups such as women, the youth, and the poor to enable them to engage economically and to be a part of Africa's growth. This in turn could lead to the rise of an entrepreneurial class as part of a robust and growing private sector, the spread of wealth away from political elites to an evolved middle class, and progress towards far more inclusive societies.

ENDNOTES

1 Piketty analyses a unique collection of data from 20 countries while popularising his and his collaborators cutting edge academic research in the last 15 years on income and wealth distribution.
2 US$ is the currency symbol for the United States Dollar.
3 ZAR is the currency code for the South African Rand.

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