

Bulletin

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"My grandfather built our house.
Now each new generation simply
adds on another floor."
Nitin Saluja, 25, New Delhi (right)

The Middle Class – Where It Is Flourishing and What Is Ahead
In-Depth Interview: Henry Kissinger on China's Rise

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Contributors to this issue:

1 Christina Schott

One of the founders of the weltreporter.net correspondents' network, she has lived in Indonesia for the last 10 years. In her report, representatives of the fast-growing middle class talk about their social advancement. *Page 16*

2 Tian Wei

A journalist, she is one of the best-known faces in China and hosts a daily political talk show called "Dialogue." She describes how economic success has changed the lives of young people in China – in both positive and negative ways. *Page 33*

3 Simon Kuper

In his analysis of young westerners, the Financial Times columnist paints a bleak picture of a generation that is threatening to slide out of the middle class as a result of the financial crisis. *Page 38*

4 Mario König

The historian from Basel, who is a member of the Independent Commission of Experts Switzerland – Second World War, traces the rise of the middle class in the west and explains its historical significance. *Page 50*

A Model for Success: The Middle Class

A large middle class is essential to a society's prosperity and well-being. World Bank economist William Easterly offered empirical proof of this in his analysis of economic data for 175 countries in relation to the size of their middle class. The results show that countries with a larger middle class have a higher per capita income and greater economic growth. And that is not all – the size of the middle class correlates to "more education, better health, better infrastructure, better economic policies, less political instability [...] and more democracy."

Thus, the middle class is a model for success – across every continent. If it is doing well, the world is, too – economically and politically. That is why it is good news that the world's middle class is growing and growing. According to the calculations of Credit Suisse Economic Research, 70 to 100 million people join the middle class every year – most of them in Asia.

This development, which you can see charted on a world map on the following pages, shows that globalization benefits not only the traditional industrialized nations in the west, but also (increasingly) emerging markets as well. And it reflects Asia's rise to a new position as the economic center of gravity. The middle class in Europe, and especially in the US, has been hit hard by the financial crisis; as a result, it is stagnating, and actually is expected to shrink in the coming decades. What do these changes mean >



THE MIDDLE CLASS INVITES US INTO THEIR LIVING ROOMS

Ten middle class families from around the world allowed us into their homes and told us about their lives, including Nitin Saluja and his family in New Delhi.

Read more starting on page 4

for Asia, Europe and – in particular – Swiss society? This issue of Bulletin focuses on these questions.

We visited Indonesia, which has the fastest-growing middle class of any country, to report on how the world's largest Muslim country is successfully combining religion and progress. In Switzerland we met with four generations of women from a single family who discussed how the middle class has changed in Switzerland over the last 90 years. Henry Kissinger, former US Secretary of State who managed to open up the US to its communist arch enemy China 40 years ago, speaks in an exclusive interview about whether China's economic ascendancy presents the west with an opportunity or a threat.

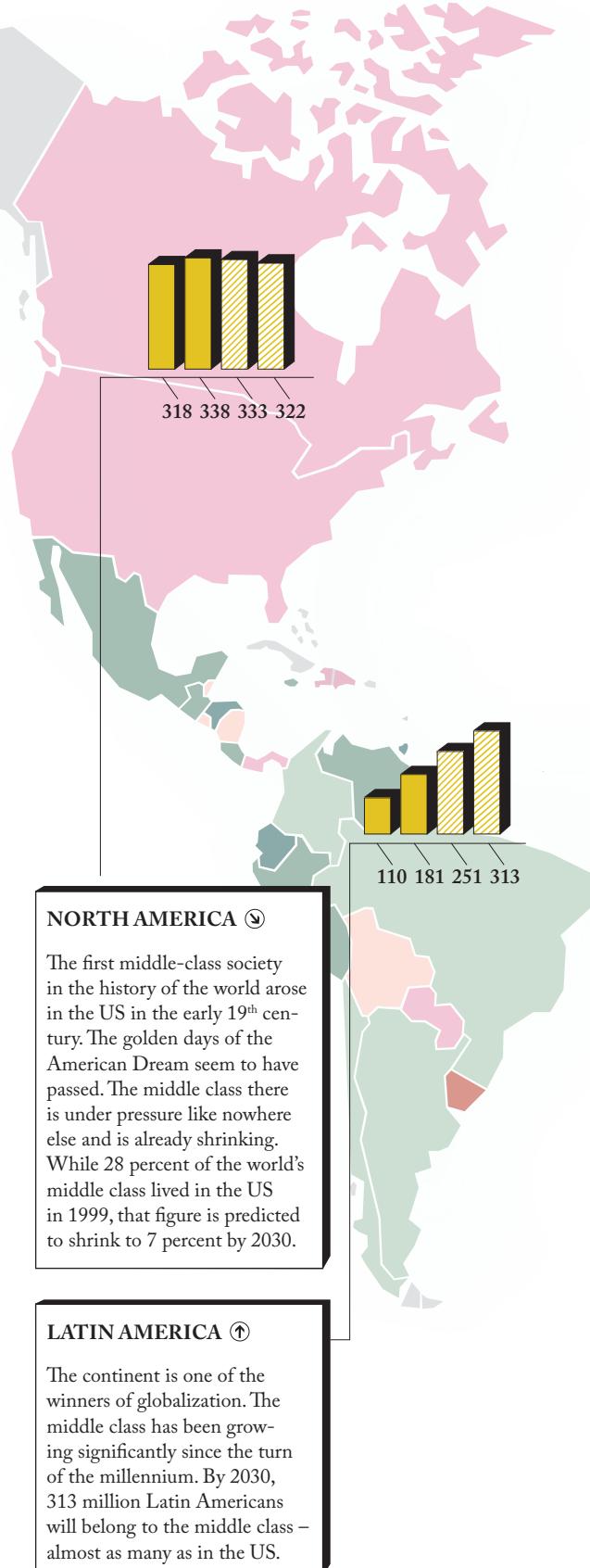
The middle class will play a key role in the future of the world economy. Find out at the beginning of the magazine how the middle class around the world lives, feels, and thinks as 10 families let us into their living rooms.

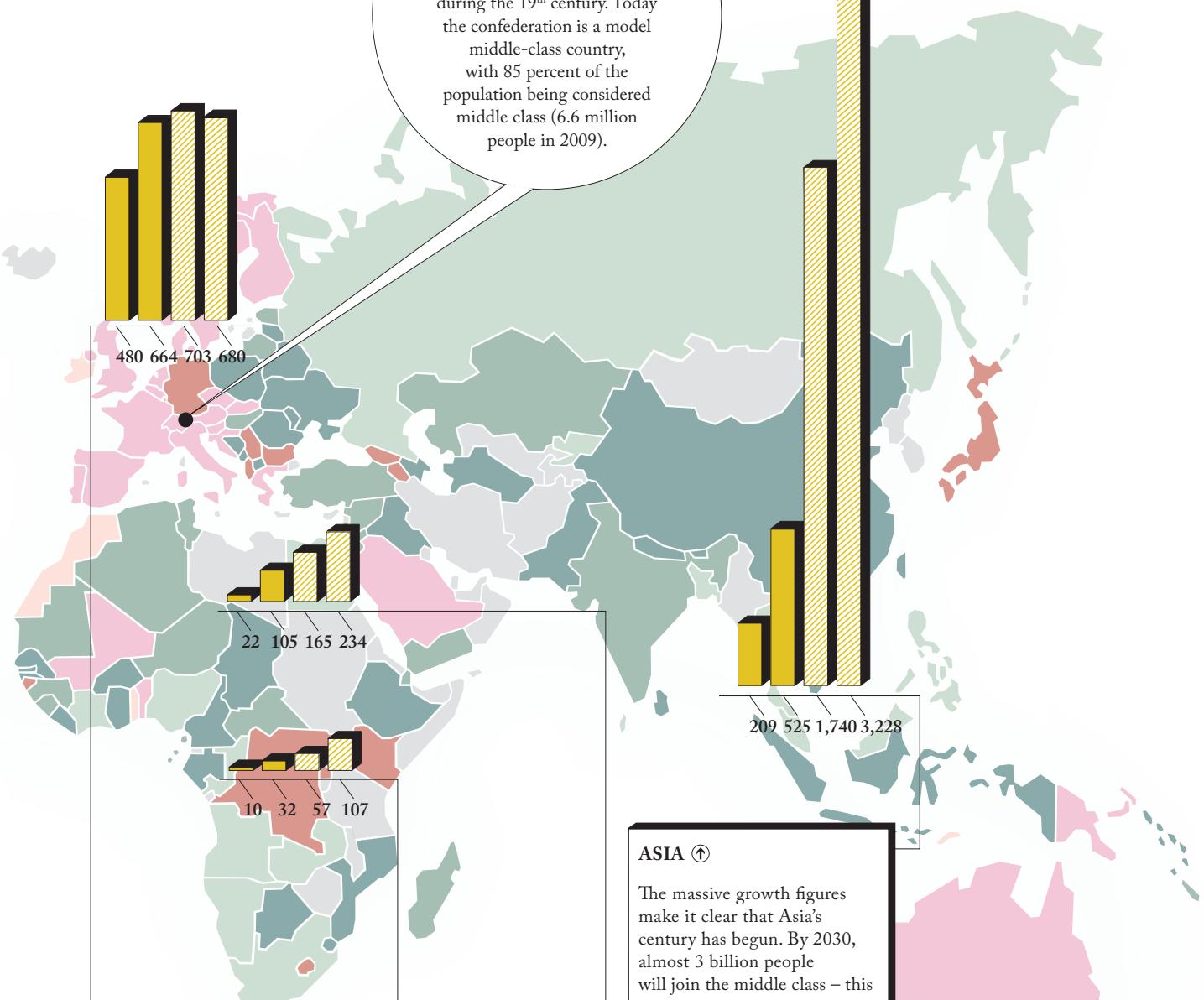
Your editorial team

THE MIDDLE CLASS AROUND THE WORLD

Each author defines middle class differently. In developing countries and emerging markets, households with a daily income between 10 and 100 US dollars, in terms of purchasing power parity, are considered middle class (according to former World Bank economist Homi Kharas). The lower limit of 10 US dollars corresponds to the poverty level in Italy, while the upper limit of 100 US dollars is double the median income in Luxembourg. In industrialized countries, the lower limit for the middle class is the relative poverty line set by the Organization for Economic Cooperation and Development (OECD), which is half of the country's median income. The top 5 percent of the population is defined as rich.

Data and definitions: Bettina Rutsch Ostermann,
Credit Suisse Swiss Macroeconomic Research





EUROPE Ⓛ

The middle class made Europe the world's richest continent around the middle of the 20th century. The collapse of the communist bloc in the east and the triumphal procession of the market economy helped about 200 million people climb out of poverty by 2009. But Europe's middle class is stagnating now, and it will shrink slightly by 2030.

AFRICA Ⓛ

Africa, which was considered "lost" until recently, is quickly catching up to the rest. The middle class in 2030, at more than 100 million people, will be 10 times larger than in 1999.

ASIA ⓘ

The massive growth figures make it clear that Asia's century has begun. By 2030, almost 3 billion people will join the middle class – this is the equivalent of about 10 times the current US population. Sixty-six percent of the world's middle class will live in Asia by then; today the figure is 28 percent.

MIDDLE EAST AND NORTH AFRICA ⓘ

High oil prices, free trade agreements with the EU and the US, as well as market reforms have helped the Arabic world experience an economic boom. The middle class there has grown considerably in the last decade.

LEGEND

Country Comparison
Growth in %
(1995/96 and 2008/09)

More than 199	25–49
100–199	0–24
50–99	Less than 0
n/a	

Comparison of the continents'
populations in millions





CAIRO, EGYPT

AHMED "SAMY" SALLAM, 32, SALES MANAGER

Ahmed Sallam lives with his wife, Heba, and six-year-old daughter, Lama, in Cairo's Haram-Giza neighborhood, a typical middle-class area near the pyramids. They own a spacious apartment, which they bought seven years ago when the neighborhood was not as popular as it is today. Sallam works eight hours a day, six days a week, as a salesman in a consumer electronics store. He commutes about an hour to work. His wife manages the household. The family can afford to eat out from time to time; their favorite restaurant is Spectra, which serves superb traditional Egyptian cuisine. They drive an old Nissan, which they use to visit Ahmed's parents once a week. The average middle-class income in Egypt is about 5,000 Egyptian pounds per month (760 Swiss francs) – Sallam declined to reveal if his income is below or above average. He says this, though: The majority of his salary is poured into his daughter's private-school education.

What worries you?

— That the political situation here in Egypt will deteriorate even further.

What would you do if you won 50,000 dollars in the lottery?

— I'd buy a new car.

Is there something you particularly like in your living room?

— The curtains.



NEW YORK, US

MARS VAN GRUNSVEN, 44, FREELANCE JOURNALIST

There are many things that Mars van Grunsven could complain about in his day-to-day life in New York City, such as the high rents that prevent him and his wife Rachel – and others in their income bracket – from living a relaxed life, even though they make more than 100,000 dollars a year. But he does not say anything, because he knows many of his friends back in the Netherlands envy him: The family, including 16-month-old son Alex, lives in the charming Fort Greene neighborhood of Brooklyn in a very comfortable 90-square-meter apartment. As a freelance journalist, he works from home 40 hours a week, while Rachel's job as an illustrator for a major publishing house is a 20-minute subway commute away. The family uses its old Honda for little getaways in the region. The van Grunsvens cannot afford to take longer breaks, since they visit Mars' family in Holland every year. Since Alex was born, Rachel and Mars have virtually stopped going out to eat, although their neighborhood is known for its great restaurants. Daycare costs take priority. Any extra money is invested in tax-exempt funds van Grunsven is using as a retirement account.

What worries you?

— That we won't be able to provide Alex with a good education: Private schools cost 40,000 dollars per year and the public schools in this part of the city are not good.

What would you do if you won 50,000 dollars in the lottery?

— We would save the money.

Is there something you particularly like in your living room?

— Seriously? I don't care about objects.



CHEXBRES, SWITZERLAND

CAROLINE ANDERES, 38, RESEARCH ASSISTANT

Caroline Anderes considers herself fortunate. Every day she gets to dive into the art world, enriching herself in the process. She works 25 hours a week as a research assistant at the Swiss Institute for Art Research. Caroline and her husband Arno, an interior designer, own an 80-square-meter, three-room apartment in Chexbres on Lake Geneva. They earn about 120,000 Swiss francs per year. Most of their earnings are spent on their mortgage, taxes and health insurance, "like most other middle-class people." She hopes that their 22-month-old son Elio will have children at the age of 30 – earlier than she did. When it comes to education, housing and population pressure, Elio will have it tougher than she did, she says. In contrast to her parents, Caroline has never personally experienced poverty or war, and a lack of funds didn't keep her from going to college. She can afford a cleaning lady and a babysitter, and also enjoy small pleasures like dining in restaurants on a regular basis, taking part in cultural activities and maintaining friendships.

What worries you?

— Suffering from a serious illness.

What would you do if you won 50,000 dollars in the lottery?

— I would put the money aside so we could buy a bigger apartment.

Is there something you particularly like in your living room?

— Our USM modular furniture – and our view of the Alps.



NEW DELHI, INDIA

NITIN SALUJA, 25, DEBT COLLECTOR

Nitin Saluja's company buys borrower's notes from the US at a reduced price. He then calls the borrowers and tries to convince them to settle their accounts. His work is largely commission-based. He did very well last summer, earning more than 30,000 rupees (500 francs) per month, arousing the envy of his colleagues. Since then his success rate has suffered, because borrowers prefer buying gifts over meeting their financial obligations when Christmas is coming. But Nitin does not like to complain; his employer is very generous, and he does not even have to pay for his own coffee. And he needs his coffee – he often works nights to catch the American borrowers when they are awake. Nitin has a car and a big television. He is very thrifty and does not drink or smoke. His grandfather bought a house for the whole family. He was an artist, which is a good business in India. Now every new generation adds on a new floor. At the moment, 14 people live in the house, all relatives. Nitin's wife is Christian, while he is Hindu, but that has not been a problem. They want to have children, but only one, because two would fight all the time.

What worries you?

— Losing a family member.

What would you do if you won 50,000 dollars in the lottery?

— Make a pilgrimage to a holy place. I would save some of it. Make sure my dad didn't have to work anymore. Build a house. Drive around with a big BMW for a week.

Is there something you particularly like in your living room?

— I love my Samsung LCD TV.



NAIROBI, KENYA
NELLIE CHU CHU, 34, SMALL BUSINESS OWNER

Kenya's economy is flourishing – and so is Nellie Chu Chu's business. More and more supermarkets and restaurants are buying the produce she grows on her farm, which she operates with five employees. Her husband Simon works in the security industry; both of them work six days a week, earning about 140,000 Kenyan shillings (about 1,500 francs) a month. This puts them in the upper middle class. They rent a house on the outskirts of Nairobi for around 70,000 Kenyan shillings (750 francs), and other items in their budget include health care and private school fees. Soon, the family of five will be moving into their new house, which they had built for 12 million shillings (about 130,000 francs) and have paid off thanks to help from parents. The couple owns two cars (a Subaru and a Nissan), works out at the gym three days a week and meets friends for drinks a couple of evenings per week. Once a year, the family rents a vacation home in a popular holiday destination near Mombasa. The family has the help of a nanny every day, with a cleaning lady coming in twice a week. Nellie Chu Chu shares the cooking responsibilities with the nanny. A lot has changed in the last few years, she says, but one thing remains the same: "African men don't cook."

What worries you?

— That we won't be able to give our children the best possible education.

What would you do if you won 50,000 dollars in the lottery?

— I'd spend it on finishing our new house.

Is there something you particularly like in your living room?

— The children's books. We read stories like "Aladdin" and "Cinderella" with the kids – hardly any African tales.



TOKYO, JAPAN

MASAAKI KOBAYASHI, 51, ART DIRECTOR

The Kobayashis own an 80-square-meter, five-room house with a small yard in a leafy suburb of Tokyo. As is common in Japanese families, Ms. Kobayashi is a housewife who has small outside jobs, while Masaaki commutes 40 minutes to his job every day. He will say this much about his income: Members of the upper middle class earn about 12 million yen (approximately 130,000 francs), which is enough for a "respectable" life in an expensive city like Tokyo. The private school his two sons attend is a major cost factor. The parents' goal is to provide their children with the simple pleasures in life. They sold the family car, as each family member owns a bike. Two of their three annual weeks of vacation are spent camping on a small island. The Fukushima catastrophe has permanently shaken Masaaki's faith in the government. He does not trust the country's media and thinks the government is corrupt. Rather than depending solely on the compulsory retirement provision, he is also investing in a private pension plan. Despite everything, he is "super optimistic" about his children's futures.

What worries you?

— I don't have any worries, but I'm afraid of my wife.

What would you do if you won 50,000 dollars in the lottery?

— Save it. I wouldn't think about retiring early unless I had at least 5 million dollars.

Is there something you particularly like in your living room?

— The computer and the TV. We also use it as a clock.



SARAJEVO, BOSNIA AND HERZGOVINA
ALMIRA KULAGLIC, 39, ECONOMIST

Almira says that there are fewer and fewer middle class families like hers in Sarajevo since the war. She lives with her husband Alen and two sons Dean, 12, and Mak, 5, in a 100-square-meter, five-room apartment in the city center. This would be prohibitively expensive nowadays, but luckily they added a floor to the in-laws' house in 2001 at a cost of 4,000 euros and a lot of hard work. Since Almira lost her job with an international aid organization a year ago, the family has been living on Alen's salary as a technical lead for a construction company – about 1,000 euros per month. Almost half of it goes on their children's education: daycare costs, basketball club, guitar lessons and English courses. They can still afford to go to a restaurant or the movies once a month, and when they go on vacation they stay with relatives in Italy, Vienna or on the coast of Croatia. Her parents were better off, both economically and culturally, when the country was still Yugoslavia. It is getting more and more difficult for the people from the different religions to coexist peacefully, according to Almira, a secular Muslim. Despite all the problems, they have no thoughts of emigrating: "We want to stay and help preserve Sarajevo's multicultural spirit."

What worries you?

— A lot of things. Another war in Bosnia. But actually I prefer to think about the light at the end of the tunnel.

What would you do if you won 50,000 dollars in the lottery?

— I'd share it with my parents, my children and our city's poor. Money isn't that important to me. Easy come, easy go.

Is there something you particularly like in your living room?

— Our table. It's where we play, debate and sing. I'm happy here.



MEXICO CITY, MEXICO

ALVARO SANTILLANA, 36, ENTREPRENEUR

Alvaro Santillana is convinced that the key to economic growth in Mexico lies in the private sector. An entrepreneur, Alvaro earns more with his small IT company than an office worker does, but at present his earnings are not sufficient to allow him to put anything into savings or a retirement account. Any profits the company makes are immediately reinvested. Alvaro would like his two daughters to become entrepreneurs as well. The two girls are attending a private school, which puts the biggest strain on the family budget. And Alvaro is afraid it will get worse. Because the universities in Mexico are not up to his quality standards, he wants the twins to go to college in the US. He believes that this will probably require him to sell off parts of his business. The family owns a Seat Ibiza, but only use it on the weekends. Although the family lives in metropolitan Mexico City, which is home to 20 million people, their day-to-day life is like in a small town. They do everything in their own middle class neighborhood of Doctores, where they can walk everywhere.

What worries you?

— Not much. Not even the financial crisis. Otherwise I wouldn't have made it so far in life.

What would you do if you won 50,000 dollars in the lottery?

— I'd invest every dollar of it in my business.

Is there something you particularly like in your living room?

— The living room is the most important room in our house. Personally, I like the big windows with our view of the street.



WOODFORD, AUSTRALIA
FELICITY ANDERSON, 43, HOUSEWIFE

Felicity Anderson is a trained human resources specialist, but currently she is a housewife. She would hate to miss even a minute of her three children's childhood. The family owns a large Toyota and their own house – which is normal in Australia, as no one trusts landlords. She describes their area as "suburban bush" – half suburb and half wilderness. It is beautiful, but the local Thai delivery service is no match for the one in the city. Felicity's husband Dat is an IT specialist and commutes to Sydney each day for work – two hours each way. This is a burden on the family. Although Australia has hardly been touched by the financial crisis, Dat worries that he would have to take a pay cut if he changed jobs. He makes about 130,000 Australian dollars (125,000 francs) a year. Instead of putting some of it aside or investing it in a voluntary pension plan, the family regularly takes vacations overseas. Felicity concedes that this might be somewhat imprudent, but when the children are older she plans to go back to work and save money for retirement.

What worries you?

— That the world is going to pot – we definitely don't care enough for the environment.

What would you do if you won 50,000 dollars in the lottery?

— If I were more self-centered, I would renovate our pool and kitchen. But most likely I would donate all of it.

Is there something you particularly like in your living room?

— The sofa. The whole family likes to sit on it and look out at the town.



PALERMO, ITALY

NICOLETTA CARINI, 44, ARCHITECT

Nicoletta Carini and her partner Marco, both architects, have been living together since 1998 and have two small children. They are getting married soon. They have not dared to get married yet because they were concerned that they would not be able to plan a wedding that would satisfy both of their families. The couple has their own architectural studio. Totaling 1,500 euros, their biggest expenses are their car (a VW Touran with more than 196,000 kilometers on it), fees for their apartment and the mortgage they took out for renovations. Their parents signed the apartment over to the young family; they could never have afforded one themselves. A middle-class family in Italy has an annual household income of about 33,000 euros and the Carini family earns just a bit more than that. Financially, they are much worse off than their parents, says Nicoletta. They have not made any major purchases since 2007. A good part of their generation in Italy is using up their parents' savings. Should the economic recovery stall for a longer period, their children will have to be flexible and be prepared to look for work abroad. The family never goes out to eat, but not because it is too expensive. Most of the restaurants in Palermo serve Italian food, which they cook themselves at home.

What worries you?

— That our family could be torn apart by some unforeseen event.

What would you do if you won 50,000 dollars in the lottery?

— Take the children on a trip around the world.

Is there something you particularly like in your living room?

— The musical instruments, although none of us plays very well.

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SWITZERLAND

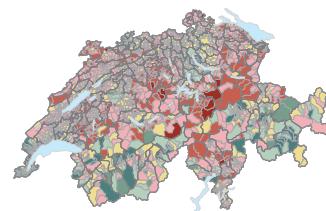
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Illustrated by Jörn Kaspuhl.



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On the Rise



Business district of
Jakarta, the capital and
center of Indonesia's
economic boom.



Indonesia's economy is one of the most prosperous in the world. More and more people can afford a better and better lifestyle. Welcome to the land where the middle class rules.

By Christina Schott,
Budi N.D. Dharmawan (photos)

WHEN SARI MEILINA AND EDWIN Iskandar greet their driver and get into the car at 5:30 a.m., they are really just switching one bed for another. They get as comfortable as possible between the mounds of pillows and snack boxes, so that they get another two and a half hours of rest before their day at the office gets going. The HR manager of a mobile phone provider and the bank portfolio manager live only 30 kilometers outside the Indonesian capital of Jakarta, but they spend roughly five hours in traffic every weekday. During the work week, they only see their two daughters when kissing them goodnight. The remainder of the girls' care is left to the full-day program at an international school and the housekeeper. That is the price they pay for their hard-earned prosperity. They are joined by millions of commuters who pour into downtown Jakarta day by day, relying on a local transportation system that comprises nothing but a completely overloaded network of bus routes.

Living in the residential development of Kota Wisata in the suburb of Cibubur are some 10,000 families, all part of Indonesia's rising middle class. A house here costs between 50,000 and 130,000 Swiss francs, depending on which of the theme park-like neighborhoods one settles in. It has taken Edwin, 43, and his



wife, who is two years younger, 12 years to work their way up from one of the Disney-esque American neighborhoods to the Japanese-style Kyoto district. Their house is full of electronic devices, from the flat-screen television to the multifunctional oven. On weekends, they take their children to the shopping mall – and sometimes they fly to Singapore or Bangkok. It goes without saying that they would like to make the pilgrimage to Mecca someday, as good Muslims do.

Life Is Meant to Be Comfortable

Sari and Edwin are proud of what they have accomplished. They both come from simple urban middle-class backgrounds. Sari's parents worked for banks in Jakarta. Edwin's father had a small building-supplies store in the province of Yogyakarta. Whatever they could save was invested in the family home and their children's education; money was not spent on non-essentials like travel. "Our parents' generation worked its way up from nothing after we gained independence from the Dutch," says Eric Santosa, cultural psychologist and economic advisor in Jakarta. "They put their all into saving their children from a life lived in poverty. The result is a new middle class that never had to struggle, whose main goal is to lead a comfortable life. Instead of investing in a mutually-supportive community, most of them spend their money on cars, smartphones and designer clothing."

Indonesia is considered one of the most important rising powers in the global economy. A September 2012 report

INDONESIA IN FIGURES

240 million

inhabitants, making it the world's fourth most populous country

Half of the population is less than 25 years old; 53 percent live in the cities. With more than 17,000 islands, Indonesia is the largest archipelago in the world and covers an area as large as Europe.

56 percent

of the population is middle class

According to the World Bank, the middle class grew 61 percent between 2003 and 2010, reaching a total of 131 million – or 56 percent of the population. The figure is based on daily per capita spending of 2 US dollars.

16th place

among the world's largest economies

With stable average economic growth of 5.2 percent between 2000 and 2010, Indonesia is in third place, following China and India. In 2012, growth was 6.2 percent.

No. 1

exporter of coal for power plants

Indonesia is also the world's largest producer of palm oil, has the biggest reserves of natural gas and copper, and exports wood, textiles, rubber, coffee, tobacco and spices, among other things.



4



5



6

JAKARTA

- 1** — A street vendor sells chicken soup and rice.
- 2** — Cleaning staff at the Istiqlal mosque.
- 3** — Market researcher Sihombing prefers to work at home.
- 4** — Chinese neighborhood at the Kota Wisata residential development in the suburb of Cibubur, home to 10,000 families.
- 5** — Edwin Iskandar and Sari Meilina with their daughters Nadia and Kania.
- 6** — Rooftop bar at the top of a skyscraper.
- 7** — Kitsch with a Native American theme in Kota Wisata.
- 8** — Depending on the neighborhood, the houses in Kota Wisata cost anywhere from 50,000 to 130,000 Swiss francs.



7



8

from the McKinsey Global Institute predicts that the country, which has the world's fourth-largest population, will represent the seventh-largest economy by the year 2030. Indonesia is strategically positioned between the Indian and Pacific Oceans and boasts a wealth of natural resources. With a steady annual growth of about 6 percent, the country is attracting an ever-widening group of investors – government heads in China, the US, the UK and Germany are lining up to take their share. Today, the population's own consumption accounts for more than half of the country's gross domestic product.

"The large population makes the Indonesian market attractive," explains Jati Andrianto, vice president at Asia Strategic Advisory, an investment firm. According to the World Bank, the middle class grew 61 percent between 2003 and 2010, reaching a total of 131 million. "These people have already met their basic needs and can now afford to fulfill their secondary desires." Motorcycles, mobile phones and fashion accessories are especially popular. The most successful companies, in terms of sales figures, are instant food and cigarette producers, and telecommunication service providers. Indonesia has the second-highest number of Facebook users; it ranks third for the number of Twitter users. As demand grows, more and more multinational companies are considering not only exporting to Indonesia, but also moving their production facilities there. That, in turn, will create new jobs and more expendable income.

Democracy as an Economic Factor

Indonesians spend money on things such as fine dining, a sector that has seen rapid growth in recent years. At the venerable Majapahit Hotel in Indonesia's second-largest finance and commercial center, Surabaya, the rise in prosperity can be marked by the increasing number of wedding events. A reception for 200 people in a five-star venue from the colonial period costs almost 10,000 euros. Sales manager Laurent Andy Sadikin is climbing the social scale himself. The son of a soap factory worker, his achievements at school earned him a scholarship to study in the Netherlands. After his return to the East Javanese commercial metropolis, Sadikin, 33, worked for the Somerset and Novotel hotel chains before making the leap to >



RELIGION AND CULTURE

— More Muslims live here than anywhere else

More Muslims live in Indonesia than in any other country: Roughly 90 percent of its 240 million inhabitants are followers of the Islamic faith. However, Indonesia is a secular republic that officially practices freedom of religion. In fact, the government only recognizes six religions: Islam, Roman Catholicism, Protestantism, Hinduism, Buddhism and Confucianism. The vast majority of Muslims in Indonesia are considered moderate. This is heavily influenced by the organizations Nahdlatul Ulama (NU) and Muhammadiyah – with 40 million and 30 million members, respectively, they are the largest Muslim organizations in the world. While most NU members live in rural areas where Islam is often combined with local traditions, Muhammadiyah propaganda advocates a “pure” Islam, and its members are primarily urban middle class. Recent years have seen a greater orientation toward Islam, modeled on the Arab world. Business reflects this too: Almost every bank offers Shariah-compliant banking, food producers are required to label their products as halal (permissible under Islamic law) and the industry for Muslim fashions is booming.

managing what is probably Surabaya’s most famous hotel. Bursting with pride, Sadikin, who is Catholic, reports that the festive Christmas dinner is always fully booked – and is also attended by Muslim business people taking advantage of the vacation offers.

The peaceful coexistence of religions in the country with the world’s largest Muslim population was a key prerequisite to the founding of a secular republic after the country gained independence from the Dutch in 1945. “Despite its weaknesses, democracy in Indonesia today is a key factor in the economic boom,” says economic expert Jati Andrianto. Since democratization following the ousting of the dictator Suharto during the 1998 Asian crisis, a return to religious values has been observed. In the lower classes, this often plays out in more radical opinions, while it is manifested in the middle class as an interest in moral education for children.

Faith, Marriage, Children

While Sadikin, concerned about Muslim dominance in government institutions, sends his two children to private Catholic schools, Cicilia Indah Setyawati’s son goes to an Islamic school “so that he can learn about his religion there, which is something I cannot teach him.” The 37-year-old hospital lab technician converted from Roman Catholicism to Islam when she married. But even after her divorce five years ago – which cost her both her home and her job – she remained a Muslim. “Religion is not responsible for what happened to me,” she says. Setyawati, the daughter of a police officer, managed to do what would have been impossible for a divorced woman as little as 20 years ago: In Surabaya she worked her way up as a product manager for a Swiss distributor of

medical equipment to the point that today she can afford to have her own house and car. But despite the independence she has attained, she is still burdened with the stigma of being a single woman. "My parents are constantly after me to remarry, and even at work, men often make passes at me," she relates. "It would be nice to have a husband again."

A 2011 study by the Goethe Institute and the Friedrich Naumann Foundation for Freedom found that for young Muslims in Indonesia, "being married and having children" was the most important value after faith. The average marrying age here is 19, and even many academics have children by the time they reach their mid-20s. Andry Kurniawan, whom everyone calls Boy, is aware of how im-

portant it is for the middle class to marry and have children early. "In my hometown on Sumatra, they think I'm abnormal," says the 31-year-old bachelor, who works in the central Javanese cultural capital of Yogyakarta as an agent for a Singapore art gallery, and often flies between Singapore, Hong Kong and Taiwan on business. "None of this means anything when I go home. There, the only thing that matters is that I still don't have a wife." In Yogyakarta, he lives in his own house; he is comfortable here. "So many students and artists live in Yogyakarta that the atmosphere is very open," Boy says. "I think the rising quality of education is crucial to progress."

Marketing specialist Everyandani Sri Rezeki is also benefiting from the openness of the country's education capital. A fashion business commissioned her to open a French-style café. The customers at Chez Moi are not just businesspeople and housewives in headscarves, but also students – a thing that would have been inconceivable as little as 10 years ago. The good location, close to several major universities, brings many young women in. Dressed in fashionable headscarves, showy bracelets and Crocs, they waver between the tiramisu and strawberry cream tortes. They take quick shots of the delicacies on their phones and share them on Facebook before trying them.

"We looked around for a long time to see what sort of trend could be successful – and it is going well," recounts the 27-year-old café manager. The daughter of a palm oil plantation worker hails >



12



13



14



15

SURABAYA

- 9** — Onion seller in Pabean Market.
- 10** — Sales manager Sadikin in front of the Majapahit, the city's top hotel.
- 11** — Ship at harbor, delivering motorcycles to the eastern islands.
- 12** — Children in front of a house in an Arab neighborhood.
- 13** — Cicilia Indah Setyawati worked her way into the middle class as a product manager.
- 14** — Bicycle rickshaws are a fixture on the streets.
- 15** — Traditional store for cosmetics and beauty products.



from Medan in northern Sumatra (a population of 1 million) and came to Yogyakarta to study communications. "The high educational level here makes for greater tolerance. Even women can decide what they want to do," says the mother of a two-year-old son. "It allows me to balance family and work."

Those are the sort of achievements that Rulas Lebargo Sihombing, located 550 kilometers northeast in the capital city Jakarta, dreams of. Sihombing, 37, a market researcher, turned to self-employment in order to start his own company. "But actually, I am still working for my former employer, because the cost of living in Jakarta is simply too high," says the anthropologist. "Still, I can work at home now and avoid the traffic." The home office model is still somewhat unusual in Indonesia, especially when it occurs – as with Sihombing – in a Christian-Muslim, mixed-gender shared apartment situation. "Many people are suspicious about what is going on here, but shared accommodations are simply more practical," he says. "We are independent, but not alone – we split the rent and save on transportation costs," says the son of a pawnbroker. "And whenever we want to go out in the evening, a good wine bar or karaoke club is never far away."

Indonesia's economy is building on just such a drive toward private consumption and enjoyment, says social analyst Eric Santosa. But there is neither an ideological objective nor an adequate social safety net to protect against the ever-expanding credit bubble. He warns, "We cannot speak of a healthy economy until



INDONESIA'S MAJOR CITIES

— Jakarta

With its 28 million inhabitants, the sprawling urban agglomeration surrounding Indonesia's capital city, Jakarta (a population of 9.6 million), ranks as one of the world's largest. Under Dutch colonial rule, the former Batavia became the financial and commercial center of the Indonesian archipelago. Every day, endless lines of cars stream out of the suburbs and into the city center, with its colossal office buildings and shopping malls. Bus routes make up the only local transportation available in the inner city. Industry is concentrated in the suburbs and focuses on electronics, automotive and mechanical engineering, chemistry and biomedicine.

— Surabaya

Surabaya is the capital of the heavily populated province of East Java and, with a population of 2.9 million, is Indonesia's second-largest city. The catchment area comprises about 6 million people. Under Dutch colonial rule, Surabaya was the country's business center, drawing on the sugar cane and tobacco industry for its prosperity. This created a burgeoning export-import industry whose production plants extend well beyond the city limits. Surabaya's huge port has earned the city its reputation as the gateway to eastern Indonesia.

— Yogyakarta

Yogyakarta, center of Indonesian culture, is an autonomous city and province with 3.5 million inhabitants, ruled by a sultan. About 400,000 live in the urban area. Art and tradition play a key role in what is considered the country's education capital; the major branches of industry are furniture and textile manufacturing, as well as arts and handicrafts. The city's contemporary art scene is considered one of the most important in Southeast Asia. Situated scenically between the extremely active Merapi volcano and Java's southern coast, Yogyakarta, a UNESCO World Cultural Heritage Site, is Indonesia's second most important tourist destination after Bali.

YOGYAKARTA

16 — Art agent Andry "Boy" Kurniawan in front of a mural by Yunizar, an internationally-renowned painter.

17 — Store in the handcrafters' community of Kasongan.

18 — Yogyakarta is a center for the Indonesian textile industry.

19 — An exhibition at the Kedai Kebun gallery.

20 — Everyandani Sri Rezeki manages a French-style café.

21 — Two banyan trees, said to have magical powers, in the palace district.



20



21

three problems are solved: the poor infrastructure, ineffective bureaucracy, and inadequate investments in qualified staff."

But in times like these of rapid growth, such concerns go unheeded. Indonesia's new middle class is planning its future with optimism. Market researcher Sihombing, who wants to start a family, says the same thing. The family background of the onetime student revolutionary is Batak, a Protestant ethnic group from the northern part of Sumatra. Any fiancée who was not of the same ethnicity or religion would not even be welcome in his parents' home. Failing any other candidate, Sihombing is now willing to embark on a marriage arranged by his parents: "After that, I will be something I used to think I would never become – an established, upper-middle-class family man." □

Christina Schott has lived and worked as a freelance journalist for 10 years in Indonesia. A co-founder of the weltreporter.net correspondents' network, she reports on social and cultural issues in Southeast Asia.

DEBT CRISIS

Inequality and Growth – The Theory

Does economic inequality promote or inhibit a country's growth? Economists are divided on that question.

This much is clear: Inequality does have an effect on growth – but the effects are frequently contradictory. The economist Nicholas Kaldor (1908–1986), for example, assumed that wage earners are able to save less than those who earn their income from corporate profits. Redistributing wages into profits thus increases economic savings, as does redistributing from low to high wages (to the extent that a propensity to save is lower with lower wages than it is with higher wages). However, high savings are a prerequisite for growth, because that is how businesses and households finance their investments. As a result, in theory a positive link between inequality and growth can be established based on savings.

Even so, inequality can also inhibit growth. In emerging nations like Indonesia there are insufficient opportunities to take out loans. This is because in less developed capital markets information (for example, about credit ratings) and a legal framework are often lacking. Generally, only those who can offer fixed assets as collateral can take out loans. In this way, an unequal dis-

tribution of wealth excludes many people from the capital market and hinders financing for promising entrepreneurial investments and funding for higher education. This is how inequality can weaken growth.

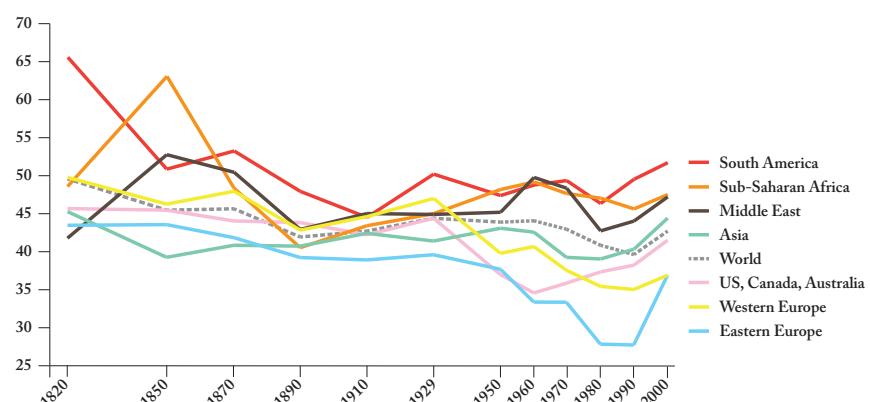
Ultimately, inequality can impact growth through politics. Political models assume that in democracies, parties are oriented toward median voters; that is the only way they can achieve majorities. These median voters are oriented toward their own interests and, in unequal societies, are part of the half of the population with below-average earnings. This makes them supporters of policies to redistribute income from the upper half to the lower half, which can weaken incentives to work or invest. In this case, inequality inhibits growth.

However, a purely growth-oriented perspective does not suffice to resolve the more fundamental philosophical question about the link between the "fair" distribution of wealth and the prosperity of a society.

Niklaus Vontobel, Swiss Macroeconomic Research

INCOME INEQUALITY SINCE 1820 BY GLOBAL REGION

Gini coefficient: "0" for equal distribution, "100" for maximum inequality



Source: van Zanden et al. (2011), The Changing Shape of Global Inequality, CGE Working Paper Series, Centre for Global Economic History, University of Utrecht

Between 1820 and 1990, inequality fell drastically, particularly in South America. Since then it has been on the rise once again, above all in Eastern Europe (following the end of the Socialist systems of the Eastern bloc).



1966



1970

A Car You Can Count On

A car is essential these days, and so is the Toyota Corolla. The favorite car of the middle class is the world's best-selling vehicle.

By Lars Jensen

WHEN THE FIRST TOYOTA COROLLA rolled off the assembly line in 1966, chief engineer Tatsuo Hasegawa predicted that it would bring "happiness and well-being" to the entire world. But as I climbed into a Corolla rental car at an airport several years ago, I felt neither happiness nor a sense of well-being. The experience was about as exciting as a glass of flat cola. Toyota's response would be that if the car is boring, they have done their job. Corolla's incredible success can be traced back to a design that elicits no emotions. The car is intended to appeal to as many people in as many different cultures as possible – so it should not have a distinct personality. Only one thing counts: reliability. A November 2012 posting in the online forum of the Pakistani Corolla fan club tells us everything we need to know about the relationship between a typical Corolla owner and his vehicle:

"Bought my Corolla with Allah's blessing. 150,000 kilometers since 2006 without a breakdown." This testimonial is followed by advice about adding simulated wood-grain trim to the dashboard.

With a total of 1.2 million sold, the Corolla, the preferred car of middle-class drivers all over the world, was the top-selling vehicle in the world again in 2012. Production of the Corolla is expected to reach the 40 million-unit mark in the spring of 2013. Volkswagen has manufactured only slightly over half as many Beetles. Hasegawa was inspired by the success of the VW Beetle and wanted to create the first truly global bestseller. The original Corolla, the E10 generation, looked like a shorter version of the Opel Kadett. It was the first Asian car to meet European and North American technical standards. Today the Corolla is sold in over 180 countries.



2007



1997



1971



1974



1980



1983



1987

Whether in Peru or Saudi Arabia, in Vietnam or Canada, the Corolla reveals little about its owner. It suggests that the driver has a steady job, lives in a well-kept home, is a conscientious taxpayer and names Tom Hanks as favorite actor. The word Corolla refers to the petals of a flower. "Nondescript" might be more appropriate. Or, as the New York Times put it in a 1997 review of the eighth generation, compared to its predecessors the Corolla E110 "is larger, roomier, lighter, faster, quieter, safer, more powerful, more fuel-efficient and lower in emissions. It will not win any beauty pageants, but that's not the point." The only thing that Corolla buyers want is "reliable, economical transportation that gets them where they are going, day-in, day-out."

It is said that the middle class is in decline in Western industrialized countries, and people who have managed to hang onto their middle-class status want to look as if they belonged to the elite. Thus in some European countries more people are buying BMW's 1 and 3 Series vehicles than Opel's Corsa and Astra. The Corolla, too, is affected by this trend. Since 2007, Toyota has been marketing the series in Europe under the name Auris in an effort to upgrade its image; in North America, the Corolla has dropped out of

the top 10 after years leading the pack. The Corolla has been absent from Toyota's Manhattan showroom for months. As Robert, a salesman, pointed out, the typical Corolla buyer can no longer be found in New York. Robert's customers are looking for a Prius or a SUV.

However, the company sees cause for optimism in the booming middle class in other parts of the world. Although Toyota has closed its Corolla plants in Australia, the UK and the US, it has opened new ones in India, Malaysia, Turkey and Venezuela. In 1962, Hasegawa posted this guideline for his team: "We need to build a car for the center lane of the German Autobahn." There's no better way to define the essence of the Corolla. This idea may be 47 years old, but in a world in which millions of people are moving up from poverty into the middle class, the Corolla will still be able to bring "happiness and well-being" to many. And in Europe, according to a number of industry publications, Toyota is planning to reintroduce the name Corolla for the next generation of its mid-range vehicles. □

Lars Jensen lives in New York and writes for the Frankfurter Allgemeine Zeitung, Zeit and the Süddeutsche Zeitung newspapers as well as for the Spiegel magazine.



1992



1991

Do Not Make Waves!

In Japan, the Goal Is to Blend in: An Essay by Christoph Neidhart

School has just started up again, and the second graders are giving reports about what they did during summer vacation. Many of them went to Tokyo Disneyland, others to Yokohama's Sea Paradise. Their stories are all strikingly similar. One of the girls went to Canada, but she does not mention it. Another was in Europe. Why do not they say so? It is just not done. One of the eight-year-olds explains that several of her classmates went abroad, and they talked about it on the playground. But they do not tell the whole class.

Almost all Japanese see themselves as part of the middle class, even if they are really wealthier than that. And even people whose status has declined as the economy has continued to stagnate in recent years still consider themselves members of the middle class. The number of working poor is growing, particularly among the young – and this is a group that is not highly visible. If almost all Japanese regard themselves as part of the middle class, even the wealthy and the working poor, then middle-class status is not based on standard of living. In Japan, being part of the middle class is an attitude.

Consider, for example, a retired director of a power company and his wife. They go to Europe once a year and take regular domestic trips. They like to stay in good hotels, the wife explains. They have paid off their home in Tokyo. They are healthy. Their daughters have "married well." All the same, they still suffer from an irrational fear of running out of money. Their pensions are shrinking. Their savings yield next to no interest and they have not been lucky in the stock market. And who knows what the future will bring. If retirees fall into poverty, are they still part of the middle class? The wife is astonished by the question. "Of course! Nearly everyone in Japan is a member of the middle class." That is one of the country's strengths, she says. "It's not like in the US."

In Japan, you have to belong – to your school class, your company, the group of mothers you spend time with, your age group – or the middle class. It is a social imperative. A sense of security in life depends on knowing your place in society. Japanese society does not accept loners and outsiders. The pressure to conform begins in preschool. In the Japanese educational system, unlike in Western countries, the greatest challenge is to pass entrance examinations.

Once you have succeeded, the exams you take at the end of your studies are a mere formality. If you have gained admission to a well-regarded high school, you can sit back and relax. If you have been accepted by a good university, your diploma is virtually assured. In corporate life the situation is similar: If you find a job after graduat-



Christoph Neidhart is a Tokyo correspondent for the *Süddeutsche Zeitung* and the *Tages-Anzeiger*. He has lived in Japan since 2002. Originally from Basel, he is the author of several books, including "Die Kinder des Konfuzius. Was Ostasien so erfolgreich macht" ("The Children of Confucius: What Makes East Asia So Successful") available in German only, published by Herder Verlag.

ing from college, you stay with that company for the rest of your life. Even employees who fail to perform receive their salaries. To the dismay of the private sector, increasing numbers of Japanese are reducing their consumption. "We don't need anything," says the wife of the retired director. "Travel is the only thing we spend money on." Even many very wealthy people are content to drive mid-range vehicles, usually hybrids. They do not want to draw attention to themselves. And they keep their cars longer than they used to. They conform to what they perceive as normal.

If we define "middle class" as being able to afford a certain degree of luxury, then Japan, or at least its cities, was a middle-class society before the average European could even dream of purchasing more than the necessities of life. As early as during the Tokugawa period (1603–1868), many Japanese people could go out for a meal – at a time when Europe had hardly any restaurants at all. In the capital city of Edo, now Tokyo, you could find a fast-food stand selling sushi or noodles on practically every cor-

The pressure to conform helped to make Japan a rich country. But today that pressure is having a negative effect on the economy. If everyone wants to be equal, no one is exceptional.

ner. Mass tourism, too, had already begun in Japan. Hundreds of thousands of people – in some years millions – walked from Edo to Kyoto and the Ise Jingu Shrine, Shintoism's most sacred site. Officially they were on pilgrimages, but the focus of accounts from that era tends to be on food, amusements and accommodations at the 53 official stops along the way. The travelers could afford this moderate amount of luxury.

Studies have shown that modern market economies are more successful when social differences are small. Japan's rapid comeback after the war was due not least to the homogeneous nature of its society: Everyone worked together toward a common goal. Today, however, pressure to conform is having a negative effect on Japan's economy. At Tepco, the company that operated the Fukushima nuclear power plant, none of the executives spoke up despite realizing that the plant was unsafe, as many later admitted. The peer pressure they had known ever since primary school was simply too strong. There seems to be a "conformity trap" or a "middle-class trap," as people sit back and rest on their laurels. They belong; they are part of the group. What more could they ask for?

Women Need to Take an Active Role in Society

Boosted by the economic boom in Asia, Afghanistan is growing too. Sima Samar, former minister and recipient of the Right Livelihood Award, also known as the “Alternative Nobel Prize,” talks about pathways out of poverty and the role of women.

By Simon Brunner

Sima Samar, how has Afghanistan changed over the past 40 years?

The country was poor when I was young, but conditions were better than today. My family was middle class. In school, I was part of a mixed classroom, which was completely normal in the 1970s. Women had the right to vote even before they could in parts of Switzerland. Then, under the Taliban, my nieces couldn't even attend school. After that, they had to go to a girls' school. Even today, there are still only a few mixed classes in the area where I come from. The conflict has turned back the wheels of time.

In many Asian countries, broad swaths of the population have emerged from poverty. In Afghanistan as well?

Here too, the middle class is doing better. It is growing at a healthy pace, and small businesses are springing up. What's more, young men and women can earn a monthly salary of 1,500 US dollars or more, if they have a university degree, a good command of English and knowledge of computers. You can live very well on that. In comparison, teachers only earn about 300 dollars.



Sima Samar, 55, is an Afghan physician and politician. She was Minister of Women's Affairs in 2001 and she became the first chairperson of the Afghan Independent Human Rights Commission in 2002. In 2012, Samar received the Right Livelihood Award for her dedication to human rights. Also known as the “Alternative Nobel Prize,” it honors people and initiatives that work on solutions to the most urgent challenges facing the world today. The award includes 50,000 euros in prize money.

Will the growth last?

Many young people earn money by working for NATO, for example as translators or interpreters. Does this contribute to job creation over the long term? I don't know. But I hope that people will put the skills they learn from NATO to use elsewhere. An example could be in mining, which is now slowly starting to take off.

How important is the West to Afghanistan's economic recovery?

The most important role is that of investor. The West should engage in trade with us. We have a lot of natural resources: copper, iron and even gold, platinum, and other precious metals. I would really like to see a mining industry in Afghanistan that is operated in cooperation with the West. One that improves living conditions over the long term by involving international companies beyond simply exploratory activities.

What has the government achieved so far in domestic policy?

Its primary objective is the country's security. But that does not just come from the presence of the military. It is the result of many institutional factors – first and foremost the enforcement of law. For example, equal rights for men and women are enshrined in our constitution. But we have a long way to go before this is actually put into practice. You have to remember that even the expression “human rights” was taboo and forbidden under the Taliban.

You were the Minister of Women's Affairs in Hamid Karzai's transitional government in 2001. What were you able to accomplish?

It is fundamental to growth that women take an active role in society. You see that in many developing countries too. Women are the key! We were able to promote women – women now make up 25 percent of our parliament. We achieved that through a quota for women. However, Afghanistan still has the lowest literacy rate for women. Only about 13 percent can read and write. A good education is crucial to individual advancement – and not only for women.

You were forced to step down because you questioned Sharia. Newspapers called you the “Salman Rushdie of Afghanistan” and called for your death. Do you still receive threats?

That was in 2002, when the situation was much worse. I am sure some still call me that, but at least not publicly. It seems that our work has been successful. □

The Chinese Have Accomplished Most of This on Their Own

Henry Kissinger, former US Secretary of State, has had a close-up view of all of the changes that have taken place in China. He has known every major party leader of the past 40 years, and today he is still a welcome guest in Beijing. During this period, China has lifted itself out of poverty to become the world's growth engine. Dr. Kissinger, how will this change both the People's Republic and the world?

By Daniel Ammann

A CHINESE BUSINESSMAN TOLD THIS story at a cocktail hour in Hong Kong: He and his children had seen "Madagascar 3," the popular DreamWorks animated movie, at a theater in Shanghai – a day before it opened in the US. "We're now ahead of the Americans at their own game," he said with a chuckle.

This little story has deeper implications. Last year, Chinese moviegoers bought the equivalent of 2 billion US dollars in movie tickets, making the country the second-largest movie market in the world, behind the US and ahead of Japan. DreamWorks is planning to open an enormous entertainment and cultural center, costing millions, in Shanghai – seeking nothing less than to compete with New York's Broadway and London's West End.

The boom in the entertainment industry is clear evidence of the rapid rise of China's middle class. Last year alone, Chinese spending on leisure activities and entertainment rose by an incredible 56 percent to its current level of 547 billion dollars – driven by middle-class consumption. Today we are seeing a steady increase in the number of Chinese people who have the time and money to take vacations and go on regular outings to movies, theaters and sporting events.

Over the past 30 years, the People's Republic, still officially a Communist country, has achieved what may be the most impressive economic success in history. At the end of the 1970s it was one of the world's poorest countries – poorer, for example, than Sudan, one of the most poverty-stricken countries in Africa. Average income was 500 dollars per year, food was rationed and a portion of the population went hungry. One in three Chinese people could neither read nor write. Although more populous than any other country, China accounted for less than 2 percent of global economic output.

Today China is the world's second-largest economy, with a gross domestic product (GDP) of some 7.3 trillion dollars. It is the world's largest exporter of goods. For example, three out of four laptops now come from China. Adjusted for purchasing power, average income in China is now 8,466 dollars per year – 17 times higher than 30 years ago. In 1999, only 11.9 million people in China were part of the middle class. In 2008 that >



An extremely active “political legend”: Former US Secretary of State Henry Kissinger, 89, is still constantly traveling, somewhere in the world. His secret mission in 1971 marked the beginning of rapprochement between China and the US.



Communism and consumerism are no longer opposites: An advertisement announcing the opening of a fast-food restaurant in Shanghai. Eating habits in China have changed so much that there are fears of a drastic increase in overweight people and obesity.

**A country of
1.3 billion people
that organizes
itself economically
is bound to
turn into a huge
competitor.**

number had risen to 157 million, and in 2020 it will be roughly 500 million according to figures from Credit Suisse's Economic Research.

The country's economic success is closely associated with its opening to the West and Western market economies. Beginning in the late 1970s, under strongman Deng Xiaoping, China created special economic zones, encouraged direct foreign investments and eventually even amended the constitution to protect private property. A top-secret mission opened the door to economic and political rapprochement with China. Henry Kissinger, national security advisor to US President Richard Nixon, paid a secret visit to Beijing on July 9, 1971. That visit paved the way for a historic meeting in February 1972 between President Nixon and Chinese party leader Mao Zedong, which ultimately led to the normalization of relations between the two countries. This diplomatic maneuver made Kissinger a "political legend," as Der Spiegel once put it.

Today former US Secretary of State Kissinger is 89 years old and as active as ever. His secretary worries about his exhausting schedule. He travels constantly, spending little time at his home in New York. We met with him in Hong Kong at a Credit Suisse Salon, which has been bringing together high-level decision makers, opinion leaders and selected clients since 2008. He spoke at the Salon about US-China relations – proving once again that he is a brilliant as well as thoughtful analyst.

If anyone has a sense of where China is headed and what it means for the West, it is Henry Kissinger, who was born Heinz Alfred Kissinger in the Bavarian city of Fürth and, as a Jew, fled to the US in 1938 to escape from the Nazis. For the past 40 years, every US president, whether Republican or Democrat, has sought his advice on issues involving Asia. He is highly regarded in China. He has known every party leader personally, including Xi Jinping, who rose to power only recently, and whom Kissinger describes as "thoughtful" and "assertive." "I don't have much time," he says in his deep, gruff voice and with a distinct German accent, "Let us start."

What were your impressions of China when you first visited if in 1971?

You have to bear in mind, that I only saw what the Chinese wanted me to see. There was next to no automobile traffic on the streets. The roads were rudimentary. There were no real hotels whenever I would stay out of the cities. The food was always good – at least the food I got. And the hospitality was excellent. I was impressed from the beginning by the dignity and skill with which the Chinese conducted their interactions with high-level Americans.

Did you think then that China would ever see this sort of economic success?

Not at all, there was no evidence, whatsoever. It was inconceivable. In our conversations, Mao showed next to no interest in trade or in economic cooperation with the United States. He said he is generally in favor of trade but he never encouraged it. He was more interested in his notion of the ideological purification of China than in an economic recovery of China. But let me say: We did not open to China in the expectation of increasing trade. That was not one of our priorities. The talks served primarily a strategic purpose. We thought that a China and Soviet Union that balanced each other was in our strategic interest.

When did you first realize that fundamental changes were taking place?

I first realized that there was a big interest in economic development in a conversation with Deng Xiaoping in 1979. He obviously wanted economic reform. The people, he said, needed to be given a stake in what they produced. I'm not so sure that we believed he could do it but I had a very high regard for Deng Xiaoping.

What advice did you give him?

I at one stage recommended to him that he was better off talking to industrial enterprises in America than to the US treasury about helping in market development. I sent some industrialists there in order to help him. The first group that went there at least reported to me, that it was hopeless, that the Chinese had 5 times or 10 times as many workers as they needed for any jobs. The state enterprises proved inefficient. In the end, from my observation, the Chinese did most of it themselves.

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The emergence of a middle class is going to bring unpredictable changes.

DENG RECOGNIZED THAT CHINA would not be able to catch up with the rest of the world without protecting private property, without international capital, without foreign technology, without access to the global markets – in other words, without globalization. For a Communist who had once been considered a hard-liner, coming to this conclusion required ideological flexibility. Deng's view was summed up in this famous observation: "It doesn't matter whether a cat is black or white, as long as it catches mice."

To stay with the same metaphor: Today the Chinese cat is a very good one – and it is increasingly catching mice for the West as well. At first, globalization was largely driven by lower production costs in the developing countries and the emerging markets, but today new markets in Asia are playing an increasingly important role. The rise of the middle class in Asian countries has produced robust domestic markets, which has allowed Western companies to compensate for sluggish demand at home.

"The new Asian middle class is growing rapidly," as economist Homi Kharas writes in an OECD study. "It is of sufficient size to provide the impetus for demand growth that the world needs." According to the International Monetary Fund, it is only because trade with emerging markets has shown substantial growth that global trade has increased by 5 percent in recent years rather than slipping into recession, despite the financial and economic crisis. However, this is causing increasing worry in the West about new competition in Asia.

Trade and economic ties have historically been viewed as stabilizing factors.

Does this hold true for an emerging country such as China?

It's more complicated than that in an era of globalization. A country of 1.3 billion people that organizes itself economically, is bound to turn into a huge competitor, if only for its mass market. It's inevitable that in the economic field – this is the nature of economics – there is some element of competition. As China moves into high-tech areas of course it competes and conflicts with American and European high-tech companies.

Is Asia's economic growth a threat to or an opportunity for the West – or both?

Most economists claim that the growth of

the world economy depends on the economic development of Asia. The economic growth in the West is not sufficient by itself to sustain the level of progress that we have come to expect. This is a fact of life. The success of many American and European companies depends on China and Asia. From this perspective China is an opportunity. The question is, whether this continued growth will in time become a threat to the West, as the country achieves a more and more commanding position in the international system.

What is your answer?

It's impossible to say right now. It partly depends on the West. If we continue to solve problems and stay at the edge of innovation and do what the West has done for several centuries in the past, we can stay competitive. If we don't, then we pay the price. In that sense it's up to us.

Experts believe that China will be the world's largest economy within a few years. The OECD forecast calls for this to happen by 2016.

They will have the largest economy but we have to remain realistic. Even when the GDP of China is equal or exceeding that of the United States, it will need to be distributed over a population that is more than four times as large. The average Chinese citizen will still have much less than an American citizen. And China will have a tremendous demographic and social problem. Because of the one-child policy there will be the social problem of how to take care of the older generation.

Could China become a military threat? The country's conflict with Japan over a group of islands has even some level-headed observers concerned.

We should not look at China as a military threat. Military confrontation with China is not conceivable to me, not in a generation. This is not a balance-of-power policy. This is not 1914, when countries went to war over differences of opinion. I'm sure that if politicians had known how the world would look in 1918 in 1914, they would have made different decisions. I don't believe that China will operate like Germany did or Russia did, building empires and seeing its role in physical domination. The Chinese >

A Good Heart Is Better Than an Expensive Watch

Greater freedom, more opportunities, greater purchasing power: Most Chinese people are much better off than they were in the past. But changing times also mean new challenges.



Tian Wei, TV journalist.

I'm happy to work as a journalist and TV host in China today. My country is one of the most interesting places in the world these days. There is space. There are opportunities. A lot of things can happen if you really try and work hard. It's like the American Dream decades ago. But today it's the Chinese Dream.

The biggest difference compared to the life of my parents is the far greater exposure that we have to the outside

world. I worked in Washington. I covered the wars in Iraq and Afghanistan. I was invited to moderate panels at the World Economic Forum in Davos. I consider my profession as a bridge linking China and other countries with the rest of the world. This would have been impossible for my parent's generation. They may have had access to the USSR. They may have had Russian friends. They may have learned a foreign language. And that was it - a very different world.

My generation dares to dream much more and has more courage to ask how and why. We have so many possibilities. But on the other hand, our lives are more unpredictable. When my parent's generation was still young they could very much see where they would be and work in 10 or 20 years. Today, it's harder to know who you are and where you are. Many young people I know feel anxious and worry about not being able to fulfill all of these dreams.

There are two sides to the increasing purchasing power in China. The positive one: It helps to boost domestic consumption, making us less dependent on exports. It also helps consumers learn the difference between good and bad quality. Therefore it inspires innovation and creativity in the economy. This is what I would call conscious consumption.

The negative part: We are witnessing a phenomenon that we call "biting your older generation," which means relying financially on your parents and grandparents. There is a certain degree of financial frustration among the younger generation. One example: Because real estate prices are high, it's very hard to buy or even rent a house or an apartment. This can be a problem if you want to get married. Despite these financial challenges people should have an independent mind. What kind of watch you wear is one thing, but more important is what kind of heart you have.

There is also an ever-increasing wealth gap. How to narrow this income disparity is a hotly debated issue; whether we should tax the rich or actually reduce the taxes. It makes me sad when people look out only for themselves. People should have a bigger vision. Even common people like us should think about our legacy before we do things, rather than just pursue immediate goals such as to earn 100 or 1,000 renminbi more. That's not a goal of life, that's just desire.

We should ask ourselves again what we could do for the world, for the generation, for the community. I would love to be somebody who tries and cares, somebody who is serious and diligent about what she does, maybe even an inspiration for others. We need to alleviate poverty and promote better economic development and gender equality in all areas of my country. I do work for the United Nations to help achieve this goal. It takes time to change the overall atmosphere, politically and socially. But this process has already begun.

One of the things many Chinese are confused about these days is that just one decade ago everybody in the world was praising China for the way it was reforming and opening up. But today, when we make progress we are criticized for our economic success or even seen as a threat. I find this strange.

Tian Wei has received numerous journalism awards for her work at the Chinese state television broadcaster CCTV in Beijing, where she is the moderator of a daily political talk show and a regular anchor for the station.



The kind of prosperity the party envisions: propaganda in Shanghai for the one-child family.



"My home is my castle," and the neighbors agree: Huaxi, located in the province of Jiangsu, is known as "the richest village in China."

wants to be respected and not threatened themselves. So it's a fine balance we have to strike. We should bear in mind the overriding objective.

What is your overriding objective?

The overall objective should be that the political and economical cooperation between China and the United States is essential for progress and essential for peace in the world. Yes, it's inevitable that they sometimes disagree. But it's also necessary that we not only settle these disagreements but move on to cooperation. And we have for 40 years now.

However, the relationship between the US and China seems to have grown more tense recently over issues such as currency policy.

How would you deal with these issues?

The basic principle that I have advocated for 40 years is that in case of disagreement we should consult with China before we take the next steps. We need a common framework within which we can interpret the actions of each other. When there are sensitive issues I have always been involved in one way or another. Every leader I have known of both the Chinese and the American side has agreed with this. I know there are people of both sides who write articles about an inevitable conflict. But that's not what the people who make the actual decisions think because they know each other.

How should the West deal with Chinese aspirations?

What we have to take into account is that China is not a new country, it is an old country reentering the international system. Don't forget: It had a greater share of the world economy than any Western society in 18 of the last 20 centuries. After all, a society that has survived 4,000 years, must be doing something right. This requires some philosophical understanding on our part. What we mustn't do is to say to China: Here are the rules of the system we set up hundred years ago and we will judge you by your willingness to enter our system. We have to be open to a system in which they play a drafting role. But the Chinese have to do their job. They have to show they want to participate in that system.

When China started its economic reforms it was an agricultural society. In the meantime

we've seen the emergence of an ever-broadening middle class. How do you assess this development?

It's extremely important. The emergence of a middle class, the movement of people from the countryside to the cities is going to bring unpredictable changes. There will be 300 to 400 million people moving from the countryside into cities in the near future. That creates challenges for infrastructure. It will also create challenges for people's values. As these movements occur the people will have to alter or redefine their existing belief system at least as to day-to-day living. They have been uprooted. They have to define a new relationship to the place they live. Chinese society will have to adjust to the changing conditions.

Will it impact political life?

This is the big debate. I don't think that you can have a modern market economy without pluralism and openness. I think that economic success will lead to political change in China. I don't think it will be Western democracy. I think it will be more transparent, more constitutional, but not yet Western democracy. It will be a new form.

Historically speaking: Is the middle class a stabilizing factor?

The middle class played a role in the French revolution, but yes, basically it provides an element of stability.

IN 20 YEARS, ACCORDING TO calculations by the Asian Development Bank, Asia will account for half of global economic output – more than all of the Western countries combined. It is probably too soon to talk about the end of the American Century. The US is still the world's dominant political and economic power. In China, 300 million people – nearly one in four – still live on less than two dollars a day.

But the new middle class is growing at a breathtaking rate on the Asian continent. Today it includes some 520 million people. By 2020 this number is forecast to be 1.7 billion, and by 2030 to as many as 3.2 billion. There is no longer any real doubt that the 21st century will be the Asian Century. The Western industrialized countries, on the other hand, find themselves more or less standing still. The middle class is stagnating in Europe – and it is shrinking in the US, according to the OECD. >

Economic success will lead to political change in China, but not to Western democracy.

The Chinese are better at big goals than we are, they do more strategic thinking.

Nobel laureate Joseph Stiglitz maintains that the American dream has become a myth. The middle class, he writes in his new book, is vanishing in the United States.

I don't believe it. But we have to watch ourselves, we have to be careful about the economy. I think deindustrialization was a mistake but it was our own decision. The Rockefellers, Vanderbilts and Carnegies were also called robber barons, but they left factories, they left productive capacity. The investment bankers and hedge-fund-operators who made a lot of money have not always left something that added to the productive capacity of the nation. And in that respect it may be true that the balance between elements of a society is being disturbed. The newly arriving upper class is a problem but I don't believe the middle class is vanishing in the United States.

If you say we have to be careful: Are we on track? Are we doing the right things?

In my view we are not doing enough. Somebody is always up for election in the Western countries. Somebody is always doing what is opportune in the short term. We have more information than we have ever had. But how do you translate this information into knowledge and knowledge into wisdom? If you spend all the time answering e-mails you have very little, if any, time, to ask the question: What is the purpose of this? Where are we trying to be 5 or 10 years from now? So you lose the vision for big goals. In my observation the Chinese are better at this, they do more strategic thinking.

What would you advise young people in Switzerland: Should they learn English or Chinese?

Well, in Switzerland, English will still be a dominant language for a fair amount of time. But if you ask me, I would say that they should probably learn both English and Chinese.

CHINA'S LONG MARCH BACK TO international leadership reveals some fundamental truths: The most significant driver of growth in our times is globalization, thanks primarily to more open markets and a freer exchange of goods and services. Never before have so many people been as prosperous as they are today. Hundreds of millions all over the world have risen out of poverty in the past 30 years. For the first

time in human history, the middle class accounts for more than half of the world's population, according to calculations by Indian economist Surjit Bhalla.

The poor do not always become poorer, as is commonly believed. Instead, the standards of living in the West and East are becoming more and more similar. Globalization is not a zero-sum game, with one party winning only if another loses. The opposite is true: Globalization enlarges the pie to be divided up. □

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Children of



the Crisis



In Western countries, almost one in five people aged 15 to 24 is unemployed: protests in London (March 2012).

They are between the ages of 18 and 30 and better educated than their parents. Yet they are unable to find suitable work or establish an independent life of their own. The crisis of the Western middle class is a crisis of its young people.

By Simon Kuper

LAST SUMMER I STAYED FOR A while in a London hotel. I often sat working on my laptop in the bar, and so I ended up listening in on several job interviews the hotel was conducting there. The interviewer was a brisk young British Asian. The jobs on offer were lowly ones in the hotel bar and reception. And the interviewees were young people from all over Europe: Greece, Lithuania, northern England. They were articulate and attractive, often with university degrees (this is the best-educated generation in history), and with enough drive to apply for a job far from home. Most spoke excellent English; one Spanish woman, who did not, did a masterful job of charming the interviewer. And yet they were desperate. For people in Western countries aged between 18 and 30, good jobs barely exist. This generation just cannot break into the middle class. The current crisis may already have shaped their lives forever.

It has become a cliché to warn that the West's "Great Recession" risks creating a "lost generation" of young people. (The American author Gertrude Stein heard the phrase from a Parisian garage owner, and she passed it on to Ernest Hemingway to describe the "lost generation" of men who had emerged from >

World War I.) The Western crisis, which has disproportionately struck young people, has entered its fifth year still going strong. By the time it ends, it may be too late for the “lost generation.” The question now becomes: What happens to them over coming decades? Will they ever achieve traditional, secure, Western middle-class existences? How will their lives permanently, structurally differ from those of their parents? Let’s start with a brief sketch of this lost generation, because this group is usually overlooked except in their guises as athletes, models or rioters.

Youth unemployment is how companies adjust to recessions. In Western countries, about one in five people aged 15 to 24 is unemployed; in Spain and Greece, more than half are. But in fact the situation is much worse than that. In Spain 24 percent of those aged 15 to 29 have simply stopped looking for work. Then there are all the highly qualified young people working lowly jobs: the graduates serving in hotel bars for minimum wage. Increasingly, young people work in part-time, temporary jobs or as unpaid interns.

Let us try to describe this generation in human terms. A woman who graduated in 2011 with a good degree in psychology and English literature from a good British university told me: “I worked on an organic farm for food and board, or ‘WWOOFed’ [World Wide Opportunities on Organic Farms], for a few months. Then I applied for all types of jobs, from café work to graduate-related jobs. I was putting in 30 applications a month, and only got an interview at a jewelry store. But I never heard back from them. I’d thought about becoming a psychologist but that would mean another several years of study, and then would I actually get a job?” Eventually, “with no career prospects in sight,” she became a poorly paid au pair in Paris: “I do wonder how old I will be when I can actually take out a mortgage and own my own home.” She adds: “Only 3 out of 20 friends that I went to school and college with have a job related to their degree.”

Returning Home

In short, most members of the lost generation have no work or menial work, scant or no income, and live on friends’ sofas or in their childhood bedrooms in

their parents’ homes. In some Mediterranean countries, anyone who leaves home before about 30 is now practically considered a teenage runaway.

Unsurprisingly, the World Health Organization (WHO) reports an increase in mental health problems among the young. The WHO estimates that 10 to 20 percent of European young people now suffer from mental problems such as anxiety, depression, eating disorders and self-harm. The European Youth Forum predicts the financial crisis will worsen matters. Cases of *hikikomori* – an initially Japanese affliction, in which mostly young men isolate themselves in their rooms for months on end – are starting to be diagnosed in Western countries. Some young people are emigrating. Spaniards are literally queuing up at Goethe-Instituts across Spain, hoping to cram Ger-

Western economies will pick up one day. But it may be too late for many in the lost generation.

man ahead of their exile. Or – in an historical irony – they are emigrating to former colonies, to Colombia, Argentina or Chile. The other day I stood outside a gym in Brazil’s capital Brasilia, admiring the beautiful young people on their treadmills, and wondering how many of their parents could have afforded gym membership.

Lasting Damage to Careers

Western economies will pick up one day. But it may be too late for many in the lost generation. Graduating into a recession can damage your career long-term. I saw it myself. I graduated from a British university in 1992 (in the midst of a recession). As a student, I had vaguely imagined that after graduation I would stride into the world on a red carpet while crowds threw flowers. It did not happen. Some of my friends began flipping burgers or waiting tables. Others tried to get into the El Dorado of 1992: Japan. People took any job they could get. One lunchtime a little before graduation, a group of us met a man we knew in a sandwich shop. The man offered a friend of mine a humble assistantship. My friend



Approximately 10 to 20 percent of young Europeans suffer from depression, anxiety or eating disorders, or they have self-harming behavior: A young man in the industrial Greek city of Elefsina (2011).

took it, reluctantly. He still works in that industry today.

That is what happens to many young people in recessions. You take a job, any job. You stick it out for a few years. By then you are approaching 30, with a mediocre CV. Younger people with pristine CVs who graduated during the recovery overtake you. Soon you have a stroller at the door. So you never jump to the career you wanted. More than most people's, your life becomes a compromise. There are few opportunities in adulthood to change the path of a life, and people who come of age in bad times get even fewer. Once or twice a year, a handful of my college friends escape from wives and kids to gather for a reflective Chinese meal in London. My friends have jobs now, but none of them ever got to live his dream.

Academic economists persistently show that entering the job market during a recession can cause "scarring" that lingers years, sometimes decades. For instance, David Bell and David Blanch-

flower, economists at Scotland's University of Stirling, studied people who had been unemployed when young during the recession in the early 1980s, and found that 25 years later they were still unhappier, less healthy, less satisfied in their jobs and earned less than comparable people. And the recessions of the 1980s and 1990s were picnics compared to today's crisis. Blanchflower told me: "There are one million unemployed young people in the UK now. What are they going to do? Are they going to go home and live with Mum? In the end it does look desperately awful."

Certain markers that distinguish the middle from the lower class in many Western countries (a home of one's own, a career, a pension) will be out of reach for this generation. Mortgages are unthinkable. Careers have been replaced by a casualized labor market, whose pure form can be viewed in the US, where companies increasingly hire workers only for time-limited projects. Robert Gordon, economist at Northwestern >

University, calls this “the rise of the disposable worker.” Very few of the lost generation are paying into pensions. Europe might be moving into an American situation in which most people can never retire: At 65, you start a new “career” at Walmart.

With their incomes low, many young people will turn to their parents instead. A key question in this generation then becomes: How much capital do your parents have? During the past 60 years, the average middle-class family in a Western country has accumulated houses, savings and stuff. If your dad happened to buy a house in Zurich or London in the 1960s, and hung onto it, then that is your pension pot. Some people live off grand-

parents: About 300,000 jobless Spanish households now subsist on a grandparent’s pension, says Fundación Social La Caixa. Coming of age in hard times appears to change political beliefs. A study by Paola Giuliano of the University of California, Los Angeles and Antonio Spilimbergo of the International Monetary Fund suggests that people aged 18 to 25 growing up in recessions tend to believe that success depends more on luck than on effort. Such people also support more redistribution by government. We saw signs of this in the last American election, when the young people who had helped elect Barack Obama in 2008 turned out again in huge numbers to keep him in the White House. Just as the American gen-

DEBT CRISIS

Can Microfinance Save Greece?

The EU has recently found that microfinance is a useful tool for promoting entrepreneurship, competitiveness and social integration. Might that be a way of solving the Greek debt crisis?



Greece is currently facing the same problems as a developing country: a high rate of unemployment, a gray economy, limited access to financing, a large percentage of microenterprises, a lack of confidence in political institutions, the service sector as the largest component of gross domestic product and low levels of direct foreign investment.

If Greece’s problems are similar to those of a developing country, might the tools developed in such countries be able to help Greece as well? Microfinance, for

example. Progress Microfinance is the first-ever EU-wide dedicated financing program for the European microfinance sector. It is funded by the European Commission and the European Investment Bank and is managed by the European Investment Fund (EIF), which either provides guarantee instruments or offers various types of loans and equity stakes to microfinance intermediaries and microcredit providers. As of the end of November 2012, the EIF had concluded agreements with 19 microfinance intermediaries in 14 countries.

In 2012, the Pancretan Cooperative Bank (PCB) in Crete joined the group of microcredit providers under Progress Microfinance. Today the PCB is able to provide Greek microenterprises with microloans up to a total volume of 6 million euros. The goal is to provide new borrowers with a robust business plan and offer startups financial support for up to three years. Another senior loan of up to 8.75 million euros is intended to enable the PCB to meet the demand from the many microenterprises that are having difficulty obtaining loans, owing to the credit crunch and the stricter requirements for loans imposed by Greece’s banking sector.

Microfinance is a new approach for Greece. The cooperative bank PCB is following the example of many developing countries that are providing microfinancing services through cooperative banks and credit unions. The PCB is limited in its scope (most of its branches are still located in Crete), but Greece’s high rate of unemployment is likely to produce considerable demand for funding to allow the self-employed to start their own businesses. Obviously, microfinance cannot solve the Greek debt crisis. However, it gives microenterprises access to loans of up to 25,000 euros, which may help them to survive in these difficult times.

Marion Struber is a research analyst for Credit Suisse.



Traditional markers of the middle class, such as home ownership or an impressive career, are an impossible dream: young people in Madrid (2012).

eration that matured in the Great Depression leaned Democratic throughout their lives, the Obama generation may too.

But we are unlikely to see more muscular political action from Western youth – let alone a revolution. In part, that is because of their addiction to screens, as surpris-

ing and harass passers-by? The economists A. Scott Cunningham, Benjamin Engelstätter and Michael R. Ward argue that though violent video games make people feel more violent, the net effect of those games is to reduce violence because they keep potentially violent people home.

Glued to their screens in their childhood bedrooms, the lost generation can keep going for a few years yet. It may need to. □

We are unlikely to see more muscular political action from Western youth – let alone a revolution.

ing as that may seem. A study by the Kaiser Family Foundation in 2010 found that Americans aged 8 to 18 were spending nearly eight hours a day on devices like computers, smartphones and TV. And these screens are helping keep the world quiet and peaceful. In late November, New York City went 36 hours without a single reported violent crime. Some social scientists puzzling over the recent fall in violent crimes in crisis-hit Western countries have formulated a new theory: Many potential criminals are too addicted to screens to go outside. After all, mugging, fighting outside bars and storming the presidential palace are leisure-time activities. When you can sit inside with Angry Birds, why stand in the

Simon Kuper is a columnist for the Financial Times and the author of several books. His book “Football against the Enemy” (Orion) was an international bestseller. A British citizen, he lives with his family in Paris.



AMERICAN
BEAUTY (1999)

Lester is having a midlife crisis. He is 42, hates his job at a trade magazine, and his wife and teenage daughter despise him. After becoming infatuated with 16-year-old cheerleader Angela, he blackmails his boss, quits his job, moves into the garage, starts weightlifting and smoking pot, and buys his dream car, a 1970 Pontiac Firebird. Just when things could not possibly get better, Angela tries to seduce him. He declines. Naturally, he must pay heavily for this.

REBEL WITHOUT
A CAUSE (1955)

Melodramatic and dated, but rarely matched for the rich complexity of its internal relationships.

Three upper-middle class teens on adulthood's cusp battle with peers and parents: Jim's father is weak and henpecked; Judy's father calls her a "dirty tramp"; and Plato's parents have abandoned

him to the maid's care. Hiding in a derelict mansion, they play out fantasy roles: Jim and Judy as newlyweds being shown around by real estate agent Plato. Clearly, even their dreams are bourgeois and conventional.

Incredibly Normal

Can middle-class life entertain us? Most definitely! Again and again, Hollywood finds new ways to depict the lives of ordinary people. A shot of romance or a pinch of humor turns even the most prosaic ingredients into drama.

By Alix Starkley



ANNIE HALL (1977)

Woody Allen plays a needy, neurotic, nebbish Jewish comic. He falls for Annie, a free-spirited, singer-photographer-artist type with a penchant for wearing men's clothing. (This inspired a brief fashion trend which punk rock mercifully killed.) They meet on a tennis court. They date. Allen makes lame jokes about the emptiness of existence, his ex-wives and his mother. Perhaps not surprisingly, Annie dumps him for a record producer.



The movies, like the middle class, sprang from suburbia. In 1914, Cecil B. DeMille shot his first feature-length film, “The Squaw Man,” in a converted stable in an obscure LA suburb called Hollywood. By the 1950s, Hollywood was no longer a precise geographical location but a synonym for the movie business itself – the self-proclaimed “entertainment capital of the world.” Today, only Paramount Pictures is still in Hollywood. Warner Bros., MGM, Disney, Fox and the others long ago moved to more affluent suburbs, like Burbank and Century City. This relocation mirrors the industry’s sociological shift. Cinema was originally made for and consumed by the lower classes. Charlie Chaplin attained worldwide fame as a plucky little tramp who is homeless and hungry. In his greatest film, “Modern Times,” he played a factory worker. Today, factory workers and the homeless are virtually nonexistent in Hollywood narratives. For decades the industry has relentlessly been climbing the social ladder, and now identifies almost entirely with the middle class. And why not? The suburbs have always been its spiritual home.

and a nice car. Nothing too fancy or showy... and nothing too clearly marked with real-world signs of status or its absence.”

When it examines middle-class values, always heterogeneous and often contradictory, Hollywood rarely strays from movie mogul Samuel Goldwyn’s famous dictum: “If you want to send a message, use Western Union.” Movies should entertain, not voice opinions. Since the middle class revolves around family, the natural format to represent it is drama. However, dramas tend to carry messages, intended or otherwise. So Hollywood keeps the tone light by employing one of its two main comic sub-genres: the romantic comedy – rom-com, or the dramatic comedy – dramedy. A classic rom-com is 1959’s “Pillow Talk,” starring Rock Hudson as a Broadway composer playboy, and Doris Day as a prim interior designer. The movie cleverly blurs the line between artificial normality and aspirational fantasy; audiences never lost sight of the fact that they were watching world famous movie stars impersonating supposedly normal people in this synthetic middle-class world.

By this time, TV had become the natural home of the middle class, thanks to

Rom-Com and Dramedy

And how does Hollywood depict the middle classes? By making them invisible. Or more accurately, by positing a generic Americanized middle-class milieu as the starting point for all cinematic storytelling. As the New York Times film critic A.O. Scott recently observed, "In the movies... middle-classness is a norm, an ideal and a default setting... Everyone seems to have a cool job, a fabulous kitchen, great clothes

Likewise, on “Desperate Housewives,” it seems that the murder rate keeps going up.

Middle-Class Life Less Entertaining

In 1967, the minor tribulations of newly-weds in New York – she a free spirit, he an upright young lawyer – drove Neil Simon’s “Barefoot In The Park.” The same year saw “Guess Who’s Coming To Dinner,” about a liberal, upper-middle class couple whose daughter brings her black boyfriend home to dine. By making this character charming, handsome, urbane and morally perfect, screenwriter William Rose left only his race as a possible point of objection, thereby allowing Americans to confront the question of interracial marriage during a time of turbulent race relations. Spike Lee’s “Jungle Fever” (1991) updated this concept with a brilliant spin, pairing a black middle-class architect and his Italian-American secretary in an adulterous affair.

Firmly in the arena of farce is 2004’s “Meet The Fockers,” in which Ben Stiller’s liberal, Jewish parents (his mother is a sex therapist) are introduced to his fiancée’s folks: an uptight, conservative former CIA operative father (Robert De Niro) and his long-suffering homemaker wife. Some-

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what darker is 2011's *Carnage*, adapted by Roman Polanski from Yasmina Reza's farcical play, where two New York couples try to resolve a potential lawsuit involving their respective sons, and end up fighting over respective world views: multiculturalism versus patriotism, and independence versus community spirit.

Of course, Hollywood has occasionally taken middle-class angst more seriously. Indeed, the archetypal bourgeois melodrama was "Rebel Without a Cause"

(1955), featuring three troubled teens from affluent homes. Look deeper, though, and the dominant issue is lack of paternal guidance and conflicted sexuality: both James Dean's and Sal Mineo's characters have daddy issues, and a latent homoerotic attraction. It is not middle-class values per se on trial, but the confusion that stems from their absence.

Seldom does Hollywood truly probe the fault lines of middle-class life: marital fidelity, social status and property values, feelings of guilt and privilege, anxiety over education, child-raising and the environment. Perhaps these issues do not make for riveting entertainment, nor lend themselves to a 90-minute, primarily visual format. More likely it is that American class distinctions differ radically from Europe's. In Britain, to be middle class is to be embarrassed and self-effacing. In Western Europe, "bourgeois" is synonymous with "pretentious" and "small-minded." In America, to proclaim oneself middle class is merely to say, "I'm normal." □

Alix Sharkey writes for various English newspapers and magazines. He lives in Hollywood.

THE SQUID AND
THE WHALE (2005)

Two teenage brothers take sides and fight during the increasingly bitter marital breakdown and eventual separation of their parents. Dad is a formerly fashionable novelist who is now in decline, mom is an emerging literary critic. They both take inappropriate lovers. Set in Park Slope, Brooklyn, and featuring a family tennis match, it does not get much more middle class than this.



PILLOW TALK
(1959)

Prim, virginal, interior designer Doris Day claims she loves her spinsterish life, despite yearning in the theme song for "a pillow-talking boy." This being the 1950s, Doris shares her phone line (and a split screen) with slick, womanizing neighbor Rock Hudson. Having never seen him, she falls for the ruse when he impersonates a wealthy Texas rancher to seduce her. Amazingly, the true sex symbol of this vapid rom-com is not Doris, but Rock.



Power and Powerlessness in the Middle Class

The middle class in the West has seen unprecedented success in the past – but faces an uncertain future. It has accomplished some historic feats since its inception: opportunities for advancement, growing gender equality and a highly developed social state.

By Mario König



The world's first middle-class society arose in the US: family outing to Coney Island, circa 1880.

THE INITIAL IMPULSE CAME OUT of the blue. In the middle of World War II, as the Western democracies struggled for survival, a British intellectual and member of the UK's Liberal Party considered the social order and how it could be improved. In November 1942, William Beveridge presented a paper that advocated for a modern welfare state. In it, Beveridge devised a system of social security that would put an end to mass unemployment and strengthen the fabric of society. The Labour Party, which formed a government after the end of the war in 1945, made the Beveridge Plan the blueprint of its social reforms.

The plan earned widespread respect across Europe. Wilhelm Röpke, a German émigré who taught economics in Geneva, influenced the Anglo-Saxon debate with his many published works. Despite their numerous differences, one thing united the social liberal Beveridge with the conservative liberal Röpke: Both sought social balance as a means of rescuing whatever remained of human civilization from the economic crisis, the war and the murderous dictatorships that characterized the first half of the 20th century. Like Beveridge, Röpke urged a more equitable distribution of property and income, criticized industrial feudalism and "corporatism," and saw no insurmountable contradictions between a private market economy and well-functioning public works.

Wilhelm Röpke's publications became bestsellers in the bourgeois circles across Europe. In a letter in early 1944 he remarked, not without irony, that he had become the "state-sponsored Socialist menace." After the war ended, his writings were translated into almost all European languages, and he rose to become the most widely read and cited author of the early postwar era. His works shaped the formation of the social market economy in the Federal Republic of Germany.

The first plans for a revitalized European society came after 1945, first from an intellectual centrist position that sometimes leaned to the right and sometimes to the left. The radical right had discredited itself by collaborating with fas-

cism and had receded into the background, at least for the time being. The radical left, which had sacrificed its intellectual credibility on the altar of Stalin and the Soviet Union, suffered a similar fate.

The Reformist blueprints formed the basis of a historic mid-century compromise that sought to strike an independent and democratic middle way that left the dual forms of barbarism – the National Socialist and Communist dictatorships – behind. It was an anti-totalitarian program founded on socialization and planning, free markets and a liberal constitutional democracy, combined in varying proportions.

Driven by the lasting economic growth of the postwar years, this program had remarkable penetrating power. It also brought about one result that did not sit well, above all with its intellectual drafters: The path chosen for building the social state and combating mass un-

racy, privileged patricians and absolute monarchies. In the 1830s, Alexis de Tocqueville, the famous French historian and statesman, traveled throughout the US and observed the growing power of the middle classes to influence society, which he described in his book, "Democracy in America." The American Revolution, wrote Tocqueville, brought about a degree of social equality as yet unseen. At the same time, American democracy gave considerable political weight to the middle and working classes. In describing the middle class, Tocqueville wrote that such men were the "natural enemies" of revolutions, which as a rule were caused by social inequality. "Their stillness keeps all beneath them and above them still, and secures the balance of the fabric of society."

Between 1830 and 1848, the new middle class sprang up in the Swiss Confederation as well, a process that took place more swiftly and straightforwardly than anywhere else in Europe. What Switzerland had in common with the US was that neither country had a long-established nobility, even if many places in the old confederation had produced a patrician class very conscious of its own power.

Initially, the new middle class, striving to influence society, distanced itself primarily from those above it, and saw itself as representing the people as a whole. With its economic and political success, however, the perspective of the middle class shifted. It became obvious that this was an extremely narrow, privileged class; the prosperity and education of entrepreneurs and bankers, higher-ranking officials, physicians and lawyers set them apart from the poverty of the overwhelming majority of small farmers, household and farm workers, traders of modest means, craftsmen, and menial servants. Major advances in industry, which gained momentum after 1880, as well as the advent of urban and industrial agglomerations, rendered the poor lower classes a formidable threat. The middle class took increasing distance from those below it, while making its peace with its former opponents in the ranks of the noble and patrician. >



Alexis de Tocqueville (1805–1859)

Saw the middle class as the "natural enemies" of revolutions, which as a rule were caused by social inequality.

employment led straight into the golden age of what, in the second half of the 20th century, gained currency in the emerging world language of English as "the middle class." This went hand in hand with a revolution in the way social differences were perceived.

The Middle Class in the Opposition

The middle class, as phenomenon, dated from much earlier. The term had become established in the UK between about 1790 and 1830, only to then spread to other countries caught up in the twofold revolutions in civil society and industry. More of a political rallying cry than a descriptive category, "middle class" covered a wide spectrum of opposition against the aristoc-

In this age of social polarization, the analyses of Karl Marx (1818–1883) gained in influence. These theories predicted the imminent demise of small, independent farmers and tradesmen. Marx prophesied nothing less than the fall of the middle class. The middle class, he believed, would shrink more and more, leaving behind an increasingly wealthy petty bourgeoisie and huge proletariat with no property at all. The conservative counter-position was to summon the strength of the middle class and conduct “middle-class policy,” which referred first and foremost to the anti-Socialist assembly, by granting minor privileges and symbolic rises in status. Farmers, who were declared “the backbone of the nation,” were among those who benefited from this.

Despite initial advances in modern social policy, social inequality increased from the late 19th century onward, reaching its peak in various countries around 1929, on the eve of the global economic crisis. In the meantime, the Soviet Union, born of military and civil violence, announced in revolutionary pathos that the bourgeoisie was dead – along with constitutional democracy. In its own way, National Socialism followed suit when it rose to power in Germany in 1933.

Triumph of the Middle Class

Developments after 1945 pointed the way – in an unexpected manner – out of this impasse. Stagnant social orders began to move. Across all Western democratic societies, a growing number of people began to see themselves as belonging to a middle class – a revolution in public perception, triggered by what were initially very modest rises in prosperity, rather than a revolution of social structures. Changing perceptions cannot in any way be deduced from the statistical data on the distribution of income and wealth. While gaps in property and income narrowed somewhat after 1929, control of productive property remained in the hands of such a small minority that one could hardly speak in earnest of a “middle-class society.” Much more im-

portant than abstract statistical data, however, was the need for social harmony following the losses of the war years, to prevent the beckoning prosperity from falling prey to social conflict once more.

Countries differed on what it meant to belong to a middle class. In the US, an overwhelming majority of the population – around 80 percent – had started to describe itself as middle class as early as the 1930s. Japan, in its postwar rise to prosperity, followed suit by the beginning of the 1960s. The middle class also secured a majority in West Germany, France and Switzerland, albeit perhaps in a more modest manner.

The UK was at the other end of the spectrum, where the middle class had once played a pioneering role. There, 64 percent of the population still described itself as “working class” as late as 1991. The British middle class that arose in the 19th century had aligned itself so closely

central groups ultimately withdrew their support from the political system.

In the “leveled middle-class society” evoked by the West German sociologist Helmut Schelsky in 1953, many once clearly drawn social differences actually lost meaning over time, as circumstances and attitudes toward life aligned themselves more closely with a mainstream. This applied especially to the distinctions between the skilled industrial work force and “white collar” professions. The salary man became the perfect representatives of the new middle class, which united under a vision of advancement and prosperity for all. The resulting middle-class society was based tacitly on a clear order in gender and family: Never before had the gainful employment of married women been so low. The roles of husband as breadwinner and wife as mother and housewife were held up as guarantees of a successful life. Socio-political harmony reached its high point around 1960.



Karl Marx (1818–1883)

Prophesied the fall of the middle class. What would remain would be a rich bourgeoisie and a proletariat without property.

with the lifestyles of the minor landed gentry that the majority of the population, in turn, began to distance itself just as distinctly from this upwardly striving middle class. These differences in perception stemmed from the politics and history of the individual countries and are tightly interwoven with them. As an aside, even in the socialist societies of Eastern Europe, there were related phenomena, although with a different vocabulary. Among the “cadres” of the “technical intelligentsia” a new middle class formed with the characteristic high expectations for consumption and opportunities for their children to advance. When inefficient central planning increasingly failed to satisfy these needs,

The End of “Gemütlichkeit”

Today, the early 1960s are often ridiculed and criticized for the obvious limitations and conformity that characterized that age. In retrospect, the era may seem almost idyllic at times. The economic downturn in the mid-1970s ushered in a much more profound transition than the misleading term of “oil crisis” suggests. It was the first sign of the end of Western dominance. The incipient liberalization of the movement of capital and the growing globalization of the world’s economy were greatly expedited by China’s transition to hypercapitalism and the collapse of the Soviet regime after 1990. Western societies have since faced growing competitive pressure. The financial surpluses set aside to support generous social policy are shrinking, while dependency grows with the return of mass unemployment in Europe. Meanwhile, the arrival of women in the ranks of higher education and their increased employment have led to higher expectations for independent life choices. The family model of the husband as sole breadwinner is in crisis, and divorce rates have risen. >



Advancing to prosperity in the 1950s: A German family in their happy home – radio and TV included.



Socio-political harmony still dominated in the mid-1960s: Dancing the “cheek hip” in a Zurich club.



Economic downturn in the 1970s: Car-free Sunday in Germany as a result of the oil crisis.



The end of "Gemütlichkeit" in the late 1980s: Swiss union members recall the general strike of 1918.

Pluralism in our way of life has replaced our erstwhile closeness.

Complaints about the growing pressure suffered by the middle class are now legion. There are unmistakable tendencies pointing to a schism within a class that used to be very heterogeneous. Position at the lower extreme is threatened by a loss of status, and at the upper extreme there is a tendency to opt out as a result of advancement. Without sugar-coating the real problems, one thing must be stressed: In the West – as everywhere else – it is the lowest echelons of our increasingly global society, not the middle class, that are coming under the worst pressure. There, forms of poverty, permanent underemployment, serious youth unemployment and social marginalization that have not been seen since the early years of the industrial age are reemerging.

The middle class, where public opinion is formed, has one advantage over the silent lower class: the power of words. They suffer at an elevated social level, and know how to give skillful expression. However, the new poverty, the decaying inner cities of the US and the loss of social prospects in the French suburbs are matters for social scientists – and the police.

In many regions of the world, such as California – once praised by middle-class society as the land of the future – spending for the prison system is now greater than for higher education. The social contradictions are more fixed, and the forces polarizing the middle class come both from above and from below. The concentration of wealth at the very top has increased drastically in the US and the UK, while the welfare states modeled on continental Europe manage to keep this trend somewhat more in check. No matter how you spin it, the hopeful expression of a “leveled middle-class society” today rings oddly hollow.

A dynamic global economy and continued globalization are creating new middle classes at a faster pace today, giving hope of escape from poverty to untold millions of families, particularly those in Asia and South America. At the same

time, people are working – primarily for small to medium-sized enterprises – under conditions that defy description. And the rising prosperity of the world’s middle class could have ecologically disastrous consequences if we do not succeed in transforming our energy supply and learn to use our natural resources more conservatively and efficiently.

And yet, despite all of the pressures and challenges, middle-class society, as it has been diagnosed, has left much that is historically significant. First, the indisputably higher expectations for social mobility and opportunities for advancement. Second, the associated institutions of a radically expanded educational system, which have increased the opportunities to acquire higher education, all considerations of (unattained) equality of opportunity aside. Third, the growing equality of women, a process that opens up opportunities and potential and is likely never to be reversed. And last, a

they bestowed their commitment on a case-by-case basis, from the far left to the far right. But they still represent a wealth of social relationships and occupational qualifications, cultural values and social locations. Where else would the necessary new solutions emanate from, if not from them? □



Wilhelm Röpke (1899–1966)

Predicted a more even distribution of property and income – one of the founders of the social market economy.

highly developed social state that extends far beyond the moral imperative to prevent people from going hungry.

The social contract renewed after World War II, which ushered in the golden age of the middle class, organized itself within the framework of national governments. Today, the challenge we face is incomparably harder, because an increasingly internationalized economy and society calls for rules of social order and civilized behavior.

It remains to be seen what socio-political coalitions will enjoy the material and ideal gains of a middle-class society and will be able to adapt to different needs. In political terms, the middle classes never represented a single entity;

Mario König: The Basel historian was a member of the Independent Commission of Experts Switzerland – Second World War.

Rapid Upward Mobility

You can work your way up the ladder, of course, but there are also easier ways to get to the top.

Bulletin editorial staff



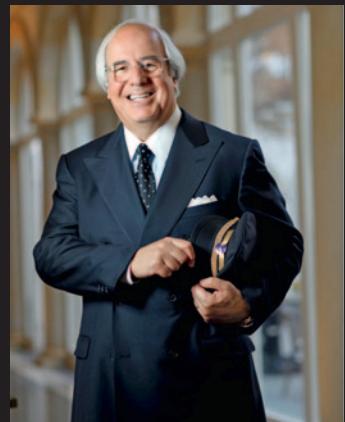
1 — The Repeat Winner

Let's say that you're working at a gas station on an island in the north of Norway, and having a healthy baby feels like winning the lottery. Then a family member wins more than a million Swiss francs the day before the

baby arrives. And the same thing happens with your second child. And your third. Movie audiences would never believe such a fairy tale plot. But that is exactly what happened to 29-year-old Hege Jeanette Oksnes. Someone in her family won the top prize in Norway's national lottery on three separate occasions (Hege Jeanette, her father and her brother), and every time she either had just given birth or was about to. "This is completely insane," Hege Jeanette says, "We don't even play the lottery that often." She has three siblings who still haven't won anything, and they are hoping "that I have at least 10 more children." She will probably have to disappoint them. "My husband thinks we have enough money now."

2 — The Trickster

Of all the legendary con men, check forgers, counterfeiters and escape artists, Frank Abagnale might be the most astounding. And not just because he was already being hunted by the police at age 16, stole an estimated 2.5 million US dollars as a 19-year-old, and flew hundreds of thousands of miles while impersonating a Pan Am airlines pilot. Instead, it's because the now 64-year-old served a relative-



ly short prison sentence and was then hired by the FBI as a forgery expert. In 2002, Steven Spielberg made "Catch Me If You Can," a movie about Frank's youth starring Leonardo DiCaprio. What the film doesn't show is how the still unwaveringly happy Frank later became rich in a completely legal way. As a consultant, he earns millions of dollars reviewing bank checks for ways to forge them and then designing new ones that are as forgery-proof as possible. He also continues to instruct at the FBI, for example, on how to tell if a person is not who he says he is. He had not even turned 20 yet when he fooled others into thinking he was a pilot, doctor, lawyer and sociology lecturer. When asked about his past, Frank says, "I made a lot of exits through side doors, down fire escapes or over rooftops. I abandoned more wardrobes in the course of five years than most men acquire in a lifetime. I was a millionaire twice over and half again before I was 21. I stole every nickel of it and blew the bulk of the bundle on fine threads, gourmet foods, luxurious lodgings, fantastic foxes, fine wheels and other sensual goodies. I partied in every capital in Europe and basked on all the world's most famous beaches. Those were fabulous years."



3 —

The Idea Woman

Stars on the red carpet do not hesitate to say which designer made their clothes: Gucci, Prada, Tom Ford. No one asks what they're wearing underneath. Insiders all know the answer: Spanx. The highly elastic Bermuda shorts, foundation garments and undershirts hold in love handles, flatten stomachs and guarantee that nothing shows under evening gowns and tuxedo jackets. This discreet shapewear was invented 12 years ago by Sara Blakely, a student and door-to-door fax-machine salesperson from Florida. She invested her life savings of 5,000 dollars in making her idea a reality. When Oprah Winfrey lauded Spanx on her show, Sara truly made it. At age 41, she is the world's youngest self-made female billionaire.

4 —

The Best-Selling Author

Not even "The Da Vinci Code" and the "Harry Potter" series have sold more copies. The "Fifty Shades of Grey" trilogy by E. L. James were the first erotic novels for women to top the



New York Times bestseller list, where they sat for months, and are also at the very top of the all-time best-seller list. The racy novels have made a phenomenon – and multimillionaire – of the former TV executive. The first book of the trilogy was published as a print-on-demand novel in May 2011. As of last November, 65 million copies of the series were in print. She received five million dollars for the sale of the film rights to "Fifty Shades of Grey." E. L. James is the pen name of Erika Leonard, a 48-year-old mother of two. Her husband is a little-known screenwriter. And the Scottish author makes no effort to increase her fame – or fortune – through interviews.

5 —

The Inventor

Inventors are happiest when their inventions are used and appreciated. This is certainly the case with Artur Fischer's invention: the ubiquitous grey plastic screw anchor. Do-it-yourselfers around the world give the

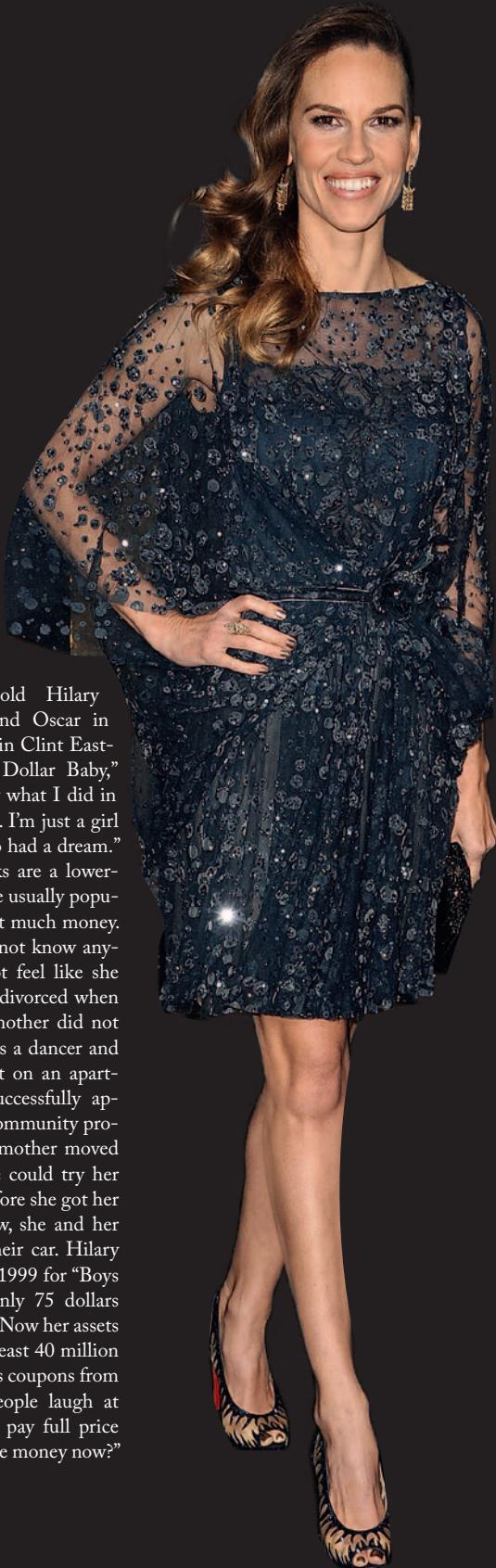


anchors a smile before they sink them into the wall. Artur justifiably became a millionaire from his elegantly simple invention. Artur, now 92, invented many other things besides his masterpiece, all of which simplify and enrich our day-to-day lives. He filed 1,121 patents, including an edible and compostable children's toy made from potato starch and an anchor to secure broken bones. Ten million units are produced of his magnum opus, the Fischer Wall Plug, every day. His company, which is now headed by his son, had revenues of over 600 million euros last year. Well done!

6 —

The Star

When the 30-year-old Hilary Swank won her second Oscar in 2004, for the title role in Clint Eastwood's film "Million Dollar Baby," she said: "I don't know what I did in this life to deserve this. I'm just a girl from a trailer park who had a dream." In the US, trailer parks are a lower-cost housing alternative usually populated by people without much money. As a child, Hilary did not know anything else, and did not feel like she was poor. Her parents divorced when she was six. Hilary's mother did not make enough money as a dancer and secretary to afford rent on an apartment. After Hilary successfully appeared in school and community productions, she and her mother moved to Los Angeles so she could try her luck in Hollywood. Before she got her first role in a TV show, she and her mother lived out of their car. Hilary won her first Oscar in 1999 for "Boys Don't Cry," earning only 75 dollars per day during filming. Now her assets are estimated to be at least 40 million dollars, but she still cuts coupons from the Sunday paper. "People laugh at me, but why should I pay full price just because I have some money now?"



Hard Times for Black Tea

The economic environment is influencing consumption. Italians are eating out less often, Americans are waiting to buy new cars, and the British are shopping at German stores.

By Andreas Tomaschett



Household consumption in the US and western Europe has had a growth rate of less than 1 percent since 2007. Although Credit Suisse is expecting a better consumer environment in the US this year, consumer confidence in the euro zone is low and there is little sign of change in the short term.

Christmas shopping — Poor showing in southern Europe. Spanish families spent an average of 680 euros on gifts, down from 908 euros four years ago. Trends included more cash payments, greater focus on discounts, more purchases via the Internet, fewer gifts given. Spanish families spend more on gifts than do Italians (264 euros) and the French (350 euros).

Discount stores — The tough economic situation of the last few years has been a godsend for German discount stores – not necessarily in their homeland, where the downturn has been felt less acutely, but in the UK. Lidl: +13 percent, Aldi: +28 percent (UK figures from May 2012 over previous year).

Cigarettes — Sales volumes have dropped (Greece: -16 percent, Spain: -13 percent, Italy: -10 percent). This doesn't necessarily mean that fewer people are smoking. In Italy, sales of cheap, fine-cut tobacco for rolling cigarettes by hand jumped (+41 percent), as did the black market (+9 percent) (figures from the third quarter 2012 over previous year).

Discounts — Price cuts have likely never been more popular as a way to maintain volume. Promotions are popping up in all industries, channels and forms. In the UK things have taken a radical turn, with a restaurant allowing customers to set their own prices.

Packaging size — “Poverty is coming back to Europe,” says Unilever’s European chief. The company is reducing packaging sizes, which is a proven tactic in emerging markets. In Indonesia, shampoo comes in single-use packages, and you can now buy a package of detergent in Spain for just five loads. Unilever has had success selling mini-packs of mashed potato flakes and mayonnaise in Greece.

Internet providers — The winners of increased price pressure. What better place to compare prices than online? Fourteen

percent of US shoppers state that they use their mobile phones while shopping in stores to check whether they are getting the best deal.

Black tea — In the UK, the traditional heartland of black tea, consumption is largely driven by the lower socio-economic classes. At present, they are strapped for cash, so they are resorting to using only “two tea bags per pot instead of three.”

Store brands — Sales of cheap store brands at chain super markets are booming and gaining market share against the name brands. For example, sales of Tesco’s appealingly packaged Everyday Value products grew by more than 16 percent (May 2012 over previous year).

Cars — Consumers are waiting longer to buy new cars. US cars are the oldest they have been in two decades, being more than 11 years old on average. In 2012, sales of new cars topped the figures from 2007 for the first time.

Restaurants — In many countries, diners are “trading down” to cheaper options. Thus, Domino’s Pizza delivery chain in the UK has benefited considerably from the crisis. This is not the case for Italians. They prefer to eat out less frequently rather than to endure a loss in quality.

Organics — Hard times for sustainably produced food. Sales of organic foods are stagnating and forecasts show that consumers will prefer cheaper food in the near future, with the exception of baby food.

Vacations — The British are being reminded “why they fell in love with the coast of Spain” – because it is so beautiful there and the price is right. Local trips – or “staycations” – have fallen out of favor as still too expensive.

The US industry report “How America Shops 2012” reached the conclusion that “there is no longer a middle class. It’s now all about the affluent and everyone else.” Italy’s consumer association, in turn, is forecasting a particularly bad year for 2013. Current middle-class consumer behavior can be summed up with this quote from a consumer goods conference in Belgrade: “Check three times, buy once.”

Andreas Tomaschett is an analyst for Credit Suisse Equity Research.

Sources: Coldiretti; Credit Suisse; Deloitte; Euromonitor International; Financial Times Deutschland; GfK FMCG Conference; How America Shops/WSL Strategic Retail; Journal of International Farm Management; Kantar Worldpanel; Leisure Wallet Report 2012; Nielsen; NZZ; OECD; Philip Morris International; Reuters; thedrum.com; Thomson Reuters; United Nations Statistics Division; www.preparedfoods.com

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Lis Triet-Lüscher (67),
Eleni Gaggini (16),
Frieda Lüscher-Wüest (90)
(left to right) at the Gaggini
family home in Winterthur.

thing We Need



No family secrets:
Great-grandmother,
grandmother, mother
and daughter discuss
what the middle
class has been like
for their generations.

By Simon Brunner

Frieda, how much did you make in your first job?

FRIEDA LÜSCHER-WÜEST (90): 60 centimes an hour. That was back in the 1950s. It was enough to buy a loaf of bread. When I retired 30 years later, my hourly wage was 14 Swiss francs. What's your allowance, Eleni?

ELENI GAGGINI (16): 300 francs a month. I save about 100 of that amount. My boyfriend lives in France. I need the money for the train.

What class would you say you belong to?

FRIEDA (90): It used to be that there were only poor people and rich people, with no one in between. Rich people have never impressed me. Even today, if someone's a millionaire it doesn't mean a thing to me.

NATHALIE GAGGINI (46): We were never rich, but I never felt that we were lacking anything.

LIS TRIET-LÜSCHER (67): Sometimes, though, I had no idea how we'd make ends meet.

ELENI (16): We have everything we need; we're somewhere in the middle.

Frieda, you grew up during the economic crisis of the 1930s. Are you more careful with your money than the other three?

FRIEDA (90): I don't like to take a taxi. I'd rather walk.

LIS (67): She's impossible.

FRIEDA (90): When the war came, we learned to do without. Often dinner would be chicken soup and vegetables from our garden: cabbage, carrots, celery. I didn't like any of it. I was thin as a rail.

What do you remember about the war?

FRIEDA (90): It was terrible. I'd sit with my sister on our farm, and we'd say: "Let's just stop. The Germans will be coming tomorrow anyway, and then it'll all be over." We didn't have a radio or a telephone, we had no way of getting information.

Did that make you grow up more quickly?

FRIEDA (90): Yes, absolutely. My father died when I was 13, and my mother had already passed away from cancer. A teacher was named my guardian. He made me go right to work on the farm. I couldn't even finish the school year.

LIS (67): You never got over having to quit school.

FRIEDA (90): I was ashamed. Thinking about that guardian, I'm so angry I could cry. I'm still furious about what happened to me. I hadn't learned to fight back. In my family, we weren't even allowed to talk loudly when adults were around – how could I have held my own against my guardian?

People got married early at that time.

Was that true even during the war?

FRIEDA (90): In my case it was complicated. I got pregnant during the war, but I wasn't married. It was quite a scandal! My husband was on active duty in the military. We got married when he had a two-day pass, and on Sunday morning – after our first daughter was born – he returned to his company. Our marriage has lasted ever since!

ELENI (16): It's funny, all of us were very young when we had our first boyfriends.

NATHALIE (46): Your husband's family owned a drugstore. That was unusual, he came from a family with more money.

FRIEDA (90): People gossiped about me. They said that I had snagged a rich husband.

The economy gradually began to recover in the 1950s.

FRIEDA (90): The Migros supermarket chain opened a store in Dübendorf in 1955, and they were looking for cashiers. I applied and got the job.

LIS (67): I remember. You worked until 18:30 every evening, so I had to make supper.

At the time, Migros wasn't very well thought of.

FRIEDA (90): No, it wasn't. My husband worked as an aircraft mechanic at the military airport in Dübendorf. He had to

The locals in Naples would shake their fists when they saw us. They wanted the tourists to go home.

FRIEDA LÜSCHER-WÜEST (90)

get permission for me to work at Migros. The only reason it was granted was because two of my children were disabled, and we needed the money. There was no federal disability insurance back then.

What did people have against Migros?

LIS (67): It was competing against small retailers.

FRIEDA (90): If you shopped there, you were ostracized. So many people would put their purchases into bags that didn't carry the Migros name. But it's not that they didn't like Migros, on the contrary, lots of people went there to shop. The prices were reasonable and it carried such a wide range of products that you no longer had to go from shop to shop to find what you needed.

LIS (67): It was wonderful. My mother would always bring leftover items home with her, or products that were past their expiration date.

FRIEDA (90): No, not expired products.

The concept of an expiration date wasn't introduced until later.

A new concept emerged: Even ordinary people suddenly had "leisure time."

FRIEDA (90): Yes. People started having "hobbies." That was something new for us. So I learned to ski and play tennis, which I really enjoyed. I played until I was 80 years old.

NATHALIE (46): All of us enjoy sports. I'm very active in a karate club.

And the food got better?

LIS (67): Yes, although we rarely had meat; sometimes we'd have sausage, almost never a cutlet or chop. Our father would always get it. "He has to work, he gets the meat" was the explanation – although my mother worked, too.

NATHALIE (46): Even when I was a little girl, in the 1970s, we didn't have meat very often. I'd always ask for pork chops on my birthday. For me, even today, a good cut of meat is still something special. Not for my husband. His family was wealthier, and he loves to eat. Typical of people from Ticino. And he's a better cook than I am.

Even travel abroad became more affordable, right?

FRIEDA (90): My husband, the mechanic, loved to ride his motorcycle. In 1954 we went to Naples for the first time on a camping vacation. I wasn't really able to enjoy it, it was all too new to me. And I spent the whole time thinking about our three children at home. The locals would shake their fists when they saw us. They wanted the tourists to go home.

LIS (67): Riding on a motorcycle wasn't very comfortable on such a long trip, and for my mother, camping meant work: setting up the tent, cooking, packing up again.

FRIEDA (90): But I liked it!

NATHALIE (46): Now I understand why we never went camping.

ELENI (16): Be glad! I don't like camping either.

NATHALIE (46): Eleni, you flew to La Palma when you were two years old – do you remember?

ELENI (16): No. I only know that we



1927 — The Wuest family. Four-year-old Frieda is in front at the right.



1983 — Nathalie Gaggini at 17.



1943 — Wedding of Frieda and Heinrich Lüscher-Wuest during his "extended leave" from active military service (two days).



1991 — Lis's wedding to Fridolin Triet, her second husband. Witnesses: Nathalie and Giovanni Gaggini.



1985 — Lis Triet-Lüscher at 40.



1996 — Nathalie's wedding to Giovanni Gaggini.



2001 — Nathalie Gaggini with her daughters, Eleni (left) and Mia.

went to the US when I was about five. I think my father was going to school there.

Mobility increased in the 1950s. People vacationed abroad – and foreigners started coming to Switzerland for work.

FRIEDA (90): A lot of Italians shopped at Migros. One of them was very chivalrous, he'd always walk me home. I think he was interested in me. Immigration continues even today, unfortunately. You hear so many languages in Dübendorf, you might think you were in a foreign country. What used to be a village is now a city. I don't like that. Last year there were 25,000 people living there – when I was young the population was 5,000.

How long did you work at Migros?

FRIEDA (90): Ten years. Then a new supervisor came and we didn't get along. I found a job as a salesclerk at the Vögele shoe store in Oerlikon.

NATHALIE (46): When I was a child, I'd always cry when I had to go to Vögele to get new shoes; I wanted sneakers or sandals, and they didn't sell them.

ELENI (16): Really? I'd rather wear high heels, they make me taller.

NATHALIE (46): How many pairs of shoes do you have, anyway?

ELENI (16): About 28. I know, that's a lot, but some people have a lot more. And they're for different times of the year. I have shoes for summer, fall, winter and spring.

Did you like selling shoes better than working at Migros?

FRIEDA (90): Yes, much better.

LIS (67): It's a more respected job.

FRIEDA (90): Toward the end, after 20 years, I could have taken over as the store's manager. But that would have been too much. I still had to run our household. I left the house at 7.00 and didn't get home until 18:30. My husband said, "You can have a job, but you still have to do the housework."

LIS (67): The men were all like that. They didn't lift a finger at home.

You must have been very proud when your daughter was admitted to a gymnasium, an academic high school, in the 1960s.

I have about 28 pairs of shoes.

I know, that's a lot, but some people have a lot more.

ELENI GAGGINI (16)

FRIEDA (90): My husband was especially proud, it was more important to him.

LIS (67): I don't think you really knew what high school was all about.

The birth control pill was introduced in the early 1960s, but you became pregnant at a very early age, too.

LIS (67): I had a boyfriend and went to a gynecologist, but he said, "Come back when you're grown up, Lis." I didn't dare argue. Then I got pregnant, at the age of 20. We had to work to make ends meet, but now I'm incredibly glad that I have you.

NATHALIE (46): It wasn't until my generation that pregnancies were actually planned. I knew one thing: I wanted to become a mother when I was 30. And that's what happened.

Nathalie was born in 1966, as the country was becoming more prosperous. Did your daughter grow up in more luxurious circumstances than you did, Lis?

LIS (67): Not really. We didn't have much money. I was always working even while in high school, and I worked after Nathalie was born.

NATHALIE (46): Our house didn't have a full bathroom, we bathed in the kitchen, in a tub under the kitchen table – just once a week.

Then came the 1970s, a time of social upheaval.

NATHALIE (46): Our house was always full of people. My father loved the good things in life, and people were always drinking wine and smoking at our house. He'd climb up on the table and

play his guitar. I always had a cough. Everyone assumed that it was because of insecticides.

LIS (67): We didn't know! Today I think: What in the world were we doing! We smoked like chimneys.

During those boom years, the unemployment rate was below 1 percent. Did you ever worry that you might not have a job?

LIS (67): I could have found three jobs every day – as a secretary. But I was an attorney. I had finished my studies in 1977, and I wanted to work in my profession! I also had to take care of Nathalie. I looked for a part-time position in my field, and it wasn't easy.

NATHALIE (46): Daycare was considered a terrible thing. "Only bad mothers put their kids in daycare," people said.

LIS (67): You spent three days a week with a daycare provider, a friend of mine. That was acceptable.

You eventually found a job with the Zurich police department, which was dominated by men.

LIS (67): At first they wouldn't let me forget that I was a woman, especially the police officers. They didn't let me talk, or if I did they didn't listen. That just made me more ambitious. I gritted my teeth and persevered.

NATHALIE (46): For my generation, ambition had negative connotations. We were calling into question a society where the only thing that counted was performance. Self-actualization was more important to us.

Were you paid less than your male colleagues?

LIS (67): No. There are regulations governing salaries for municipal jobs. But they made sure that I didn't advance too quickly. Luckily I had the support of the chief of police. Shortly before he retired, he appointed me deputy secretary of the department. That annoyed his successor, who wanted someone from his party, the Social Democrats. He told me, "If you're going to work here, you need to act politically." I replied, "I see things from a legal rather than a political perspective." He didn't like that.

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1/2013



Growth – Thriving Business,
Bountiful Prospects

Bulletin
PLUS

Bulletin Plus, the Credit Suisse magazine for the Swiss market
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2001 — Eleni Gaggini, 5, in the US.



2012 — Heinrich and Frieda Lüscher-Wüst at home in Dübendorf.



2006 — Lies Triet-Lüscher in her office at the Zurich police department.



2012 — Eleni Gaggini and her boyfriend, William.

NATHALIE (46): All of us are interested in politics, but we've never been members of any party.

FRIEDA (90): I always vote, but I don't have time to learn about the issues. Luckily my husband always knows everything.

The 1980s were a time of youthful unrest. Nathalie, you were involved in demonstrations at the same time your mother was working for the police department. Didn't that lead to some conflicts?

NATHALIE (46): My mother let me know when the police were planning to crack down. It would have been uncomfortable for her if I had been arrested. Oddly enough, I often went to the police department's cafeteria for lunch in those days – looking like I did back then! I wasn't really a punk, but I had a safety pin in my ear, things like that.

ELENI (16): What are you talking about?

NATHALIE (46): Unrest in the 1980s, when young people were protesting. You can't imagine. When I was growing up, everything in Winterthur closed at 23:00. There weren't any bars, discos or other places for young people to go. The city of Zurich wanted all of its subsidies to go to the opera, while the AJZ, Zurich's Autonomous Youth Center, got nothing. That's why we were protesting.

LIS (67): I remember shortly after I met your father, in 1965, we were sitting on a bench kissing, totally harmless. People walking by practically attacked us. They said we should be ashamed. And we lived together before we were married, which was also prohibited. The police would check up on people!

ELENI (16): What's wrong with the opera?

NATHALIE (46): Subsidies only went to culture for the rich. That was what we were up in arms about. And of course we protested against everything that had to do with authority or the state. We'd chant, "Down with the state!"

Lis, you worked for the Zurich police department for 28 years. What changes did you see?

LIS (67): Today police officers are very closely monitored. In recent years they've become much more sensitive to the social

problems of a large city. And the courts' hands are often tied. There are strict rules for everything, beginning with preventive detention. Offenders know that they have little to fear, and they behave accordingly.

Has there been a change in the types of crimes that are committed?

LIS (67): White-collar crime started to become a big issue in the 1990s, and it's a difficult problem. Our legislation isn't designed for addressing such crimes. We're also lagging behind when it comes to cybercrime.

Are people working more now than they used to?

LIS (67): Police chiefs used to take a two-hour lunch; today they grab a quick sandwich. There's no doubt that people are working more. But they often lack the time to concentrate and do a good job.

All four of you are modern, self-confident women – do you enjoy doing housework?

NATHALIE (46): Not at all.

LIS (67): Neither do I. I like to cook. And I'm in charge of our household budget, that's something I like to do.

FRIEDA (90): I didn't know any different, I had to do the housework.

NATHALIE (46): We hired a cleaning lady recently, although I had resisted that idea for a long time. Now I wouldn't want to go back.

ELENI (16): My boyfriend and I have already agreed that we'll divide up the housework 50-50 if and when we decide to move in together.

How have relationships between men and women changed over the past 90 years?

FRIEDA (90): Men have changed, it's easier to talk to them now. It used to be that the husband went to work and the wife had to take care of everything else. If I wanted to talk about my concerns, I'd have to go to a female friend or my hairdresser.

LIS (67): The way you and your husband do things, Nathalie, that wouldn't have been possible for me. You both have your specific responsibilities, it's normal for you both to look after the family.

NATHALIE (46): Well, he works full-time and

my job is only 60 percent, and he earns much more than I do. I really wanted children, and he didn't. But if something comes up, I can count on him to take time off and do the housework.

How have you changed?

FRIEDA (90): I think all of us realize the importance of having our own money. Even I opened an account that my husband has never touched.

LIS (67): Nathalie was profoundly influenced by feminism. She doesn't like to have a man pamper her.

NATHALIE (46): On one of our first dates, my husband wanted to treat me to a cup of coffee – I was indignant.

ELENI (16): Really? I like that. I like it when he opens the door for me. If he doesn't, I think: Really!

LIS (67): I like that, too. At the police department the men were very much gentlemen.

NATHALIE (46): Eleni likes to dress in a feminine way, and that was something my generation scoffed at. I think it's easier today to accept differences between men and women.

Eleni, the unemployment rate is higher today than it was when your mother and grandmother were young. How do you see your future?

ELENI (16): I want to finish high school as quickly as possible and then go on to university in Montpellier, where my boyfriend lives. I'm thinking of studying music, musicology or perhaps biology – I'm interested in that, too. Then I want to go into teaching.

NATHALIE (46): She has very definite ideas about her future. I was much more of a dreamer. But I knew at an early age that I didn't want a high-powered career.

And how about your personal life?

ELENI (16): I want to get married, in a white dress! And then I want to have two children, definitely before I turn 30. And a house.

It sounds like Eleni wants the kind of life that you were demonstrating against in the 1980s.

NATHALIE (46): Yes. She and her generation are very bourgeois, we're in a more conservative era again. I'm amazed at the level of conformity among young people. It's as if they've been lulled into passivity by their comfortable lifestyle.

ELENI (16): Today people see an average life as desirable. Lots of my friends just want to be "ordinary."

NATHALIE (46): And people are also more tolerant. Eleni used to have a very right-wing boyfriend; the current one leans more to the left. That would have been impossible for me.

ELENI (16): The thing that bothers me about my generation is that people make ironic comments about everything. Nothing is serious.

NATHALIE (46): What amazes me is the exhibitionism of the younger generation. There are almost no pictures of me when the demonstrations were happening. You take pictures of everything – and then post them on the Internet!

Which of you had the best youth?

NATHALIE (46): Mine was definitely the best, during the exciting 1980s. Society was changing. There's not much happening today, except perhaps the digital revolution.

LIS (67): It would have been nice to be as self-confident and self-aware as today's young women. They don't hesitate to say what they think.

FRIEDA (90): It may sound strange, but I think it was easier to be young in my day than it is for Eleni. There's nothing to make them happy today. They already have everything. And everything is so fast-paced – the Internet, mobile phones, television.

ELENI (16): That's certainly true. You were just trying to survive. We have a thousand different things to choose from. Still, I would never want to trade places.

Has anything stayed the same over the years?

ELENI (16): Men have to be able to dance.

FRIEDA (90), LIS (67), NATHALIE (46): Exactly. □

FOUR GENERATIONS



FRIEDA LÜSCHER-WÜEST (90)

Born in 1923 in Gockhausen, worked as a cashier for Migros and then as a salesclerk for the Vögele shoe store. Married for 70 years.

Her husband was an aircraft mechanic and later head of the fire brigade at the Dübendorf military airport. Three children, two of whom are disabled.



LIS TRIET-LÜSCHER (67)

Attorney, worked for the Zurich police department for 28 years, 15 of them as secretary of the department. Second marriage to a public prosecutor; retired and living in France. One daughter, Nathalie, from her first marriage.



NATHALIE GAGGINI (46)

Works as a freelance graphic artist in Winterthur, where she and her family share a large house with two other families. Married to an attorney.

Two daughters, aged 13 and 16.



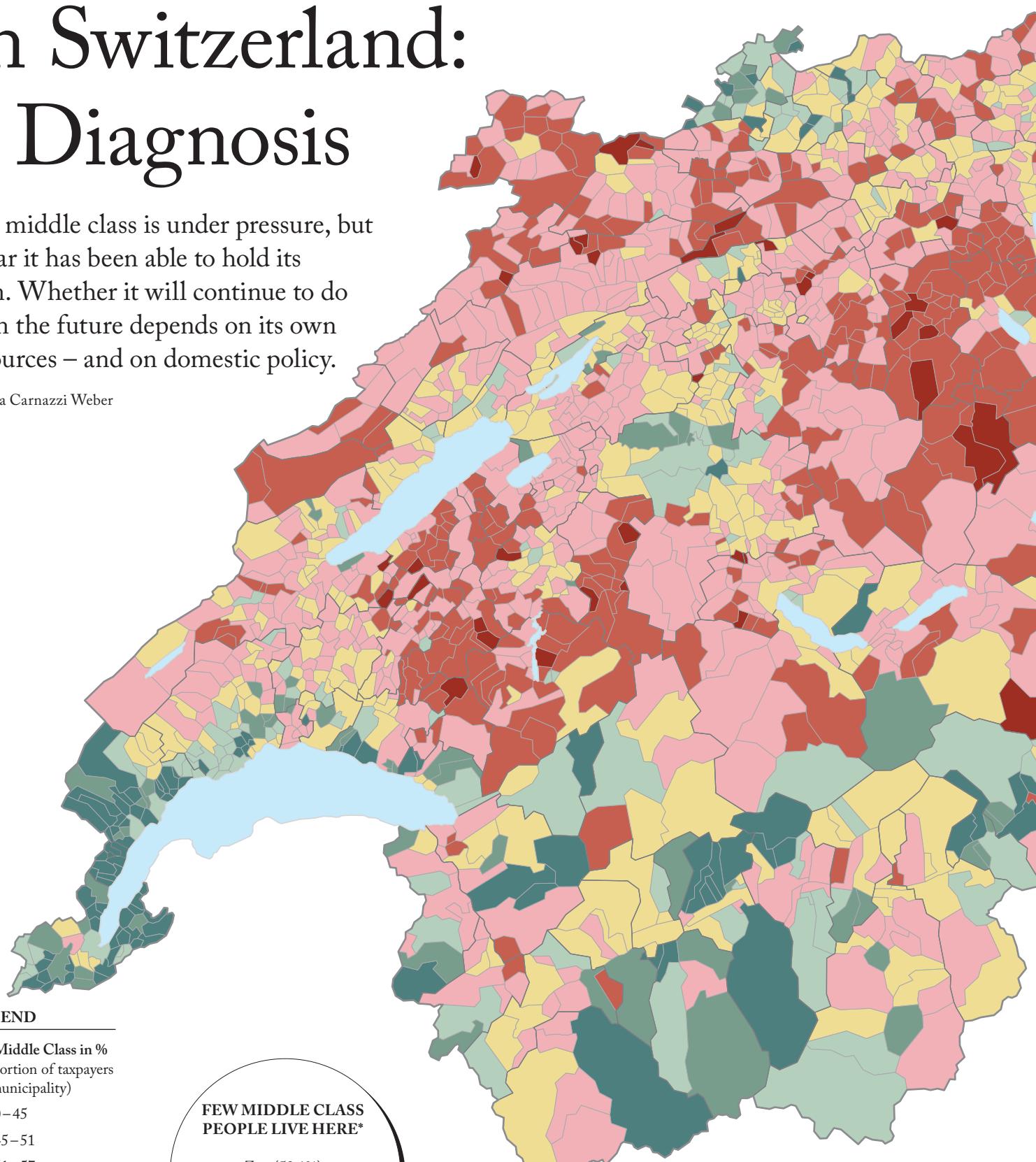
ELENI GAGGINI (16)

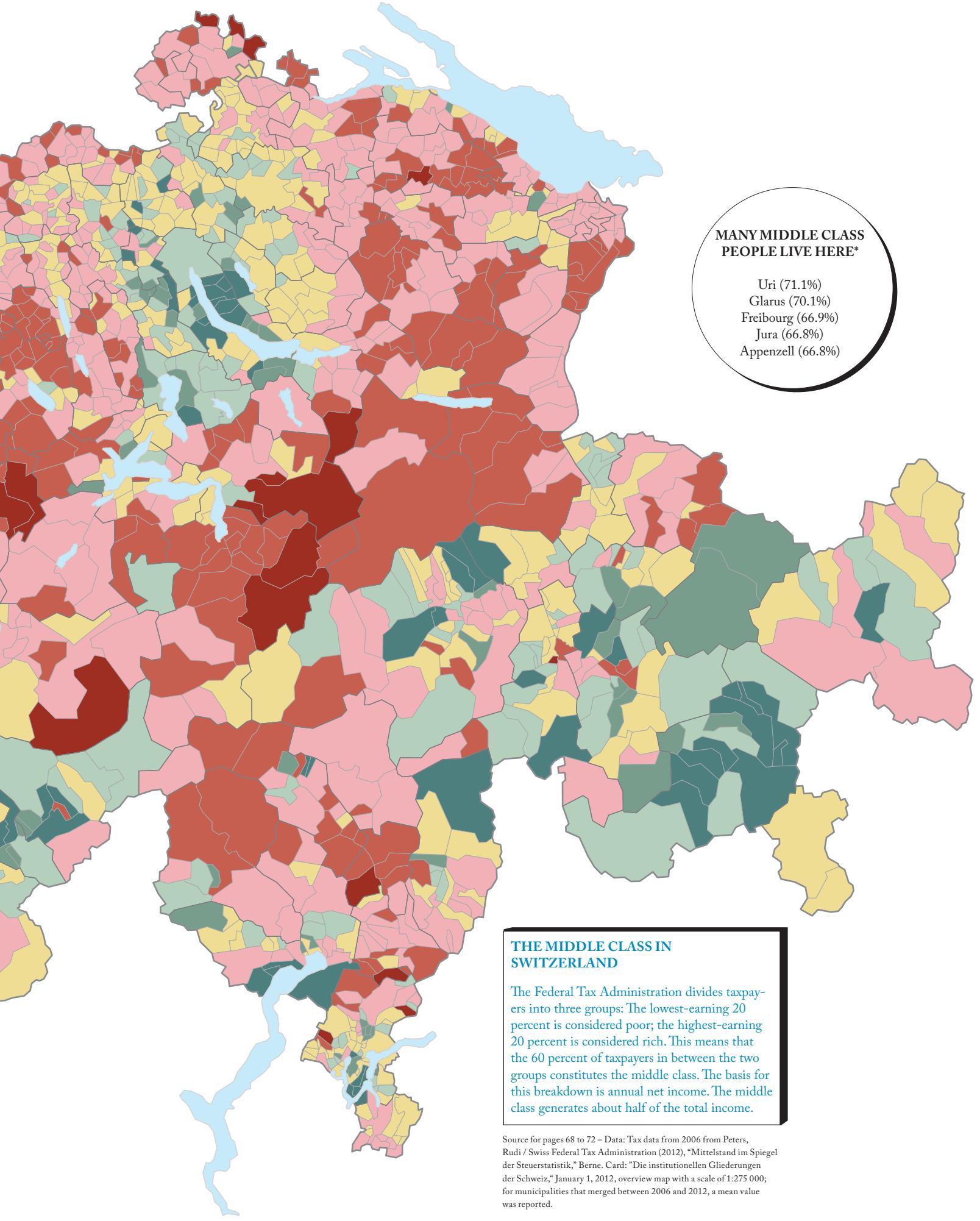
Attends a high school specializing in the arts in Winterthur. Plans to become a music or biology teacher. In a relationship for five months; her boyfriend lives in southern France. Eleni wants to have two children.

The Middle Class in Switzerland: a Diagnosis

The middle class is under pressure, but so far it has been able to hold its own. Whether it will continue to do so in the future depends on its own resources – and on domestic policy.

By Sara Carnazzi Weber





Is the middle class going broke? Is it threatened with social decline? Or is the middle class doing better than we think? For several years, statements about the condition of the middle class have taken on ever greater weight, not only in debates abroad but also increasingly in Switzerland.

Academics and politicians vie with one another to make pronouncements that are not infrequently influenced by the current economic situation, political maneuvering or simply the bias of choice. Behind the term "middle class" lurks a multifarious phenomenon that goes well beyond mere observation of income. Middle class implies more than just a specific income level. It is associated with role models, basic values, and educational and occupational profiles – all with an increasing degree of differentiation. There is also the question of which middle class: the lower, middle or upper middle class all will color the assessments made.

Switzerland's solid economic policy, strong economic development and high international competitive standing have done much to preserve its middle class from eroding over the past 20 years. The most recent study published by Avenir Suisse also bears this out. In an international comparison, Switzerland reaps the benefits of lasting low unemployment, high labor force participation, high earnings, a moderate tax burden and balanced income distribution. The last of these has remained extremely stable over time.

No Decline for the Middle Class

A comparison of income levels and income distribution in OECD countries confirms, after adjusting for purchasing power, not only that Switzerland has above-average earning power in all segments of the population, but also that its income gap has widened at a lower rate than in other countries. Switzerland has,

in particular, been spared the decoupling of its highest earners that is especially prevalent in English-speaking countries, first and foremost in the US. Switzerland's top 10 percent of earners has maintained a relatively constant share of the total income since 1917. In other words, the increases in income have remained evenly distributed, in relative terms, across the individual income sectors. Even in the past few years, those top earners were not the only ones to benefit. In a review of income trends as well, the proportion of the working population that earns no less than 70 percent and no more than

home ownership in recent years (see article on the following page).

A Vague Discontent

While historically low interest rates have helped to boost Switzerland's figures for home ownership and improved its affordability when measured against income, a broad segment of the population was able to attain this status by coming up with the required capital.

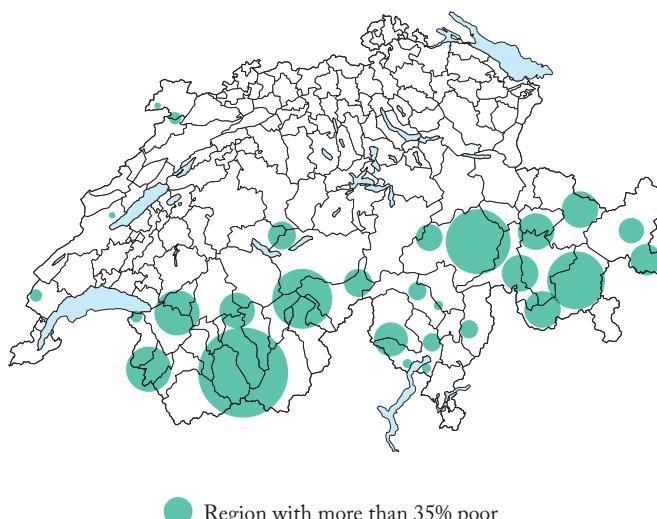
The option of falling back on pension savings for financing should not be ignored. A survey from the Institute of Financial Services at the Lucerne University of Applied Sciences and Arts shows that roughly 30 percent of respondents used an advance from their 2nd-pillar pension benefits to purchase their own home. Of those, 39 percent contributed less than 10 percent hard equity, and therefore did not meet the minimum requirements for own funds that went into effect in July of 2012. These cases represent only 12 percent of the total volume of mortgages.

Where does the vague discontent felt by Switzerland's middle class come from, then? Could this be a result of a deteriorating income and asset situation, or is it more likely to stem from the fact that opportunities for social advancement are shrinking or disappearing from sight? Switzerland has always been committed to encouraging and guaranteeing the greatest possible equality of opportunity. The desire or effort to achieve social advancement – which is precisely what identifies the middle class – is at least indirectly rooted in the principle of justice in the federal constitution. But what is the actual situation of Switzerland when it comes to social mobility?

Low Income Mobility

Several empirical findings suggest that Switzerland tends to fall among the countries with low income mobility from one generation to the next – somewhat higher than the US, but significantly lower than Sweden. In other words, the income >

POVERTY IN SWITZERLAND



● Region with more than 35% poor

150 percent of the median has only narrowed slightly over the past 15 years. These figures suggest that we can rule out the demise of the Swiss middle class.

Despite significantly uneven distribution, the middle class is comfortably situated with regard to assets as well. If 2nd pillar and 3rd pillar pension savings are counted, roughly 22 percent of households have net assets of more than a million francs. Moreover, Swiss households are able to save an annual average of around 12.2 percent of their gross income, although the median range of income distribution still only saves between 6 percent and 9 percent. This is the main reason why a large swath of the population has been able to afford the step into

A Home of One's Own

What was once a country of renters is increasingly becoming a nation of homeowners. This trend is particularly striking among middle-income people.

Nearly one out of every two middle-class households in Switzerland owns its own home, in most cases a traditional single-family dwelling. Among the population as a whole, however, this is true of only slightly less than 40 percent of households.

More and more first-time buyers are choosing condominiums, for several reasons: For many people, scarce land and high prices are putting single-family dwellings out of reach. In addition, it is common to want to live near a town center. Condominiums are an economical alternative that has helped people in the mid to lower range of the middle class realize their dream of a home of their own. Middle-class people are most like-

ly to live in urban areas. So home ownership is no longer limited to the elite, contrary to popular belief and this has been true for some time now. Significant numbers of low-income people own their own homes (although they may have to compromise on size and location).

Little Expectation of Financial Woes

Middle-income households currently pay an average of 1,545 Swiss francs for a rental apartment. This is only 83 francs less per month than the owners of single-family dwellings pay for housing (1,628 francs). Condominium owners spend only slightly less (1,554 francs). This difference is so small because condominiums are usually newer and more centrally located.

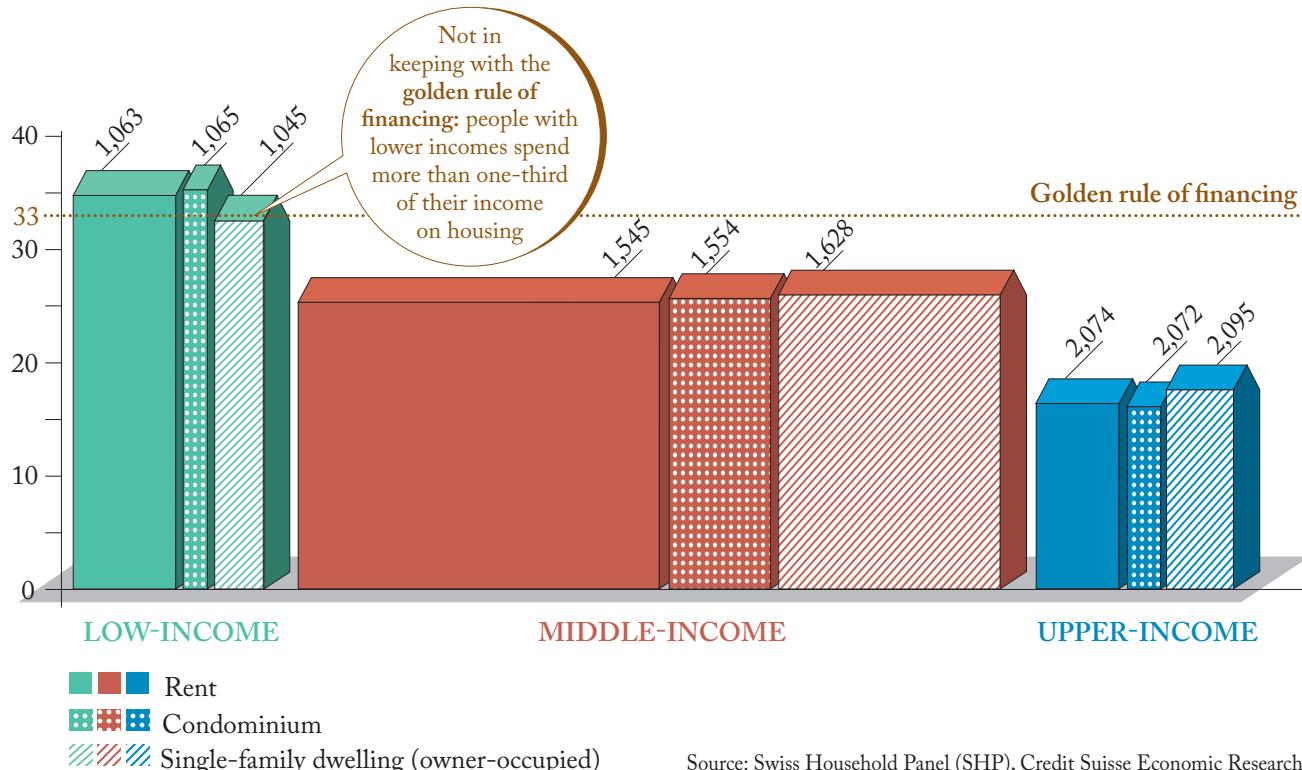
Over the years, owners have paid more in housing costs, on average, than renters (also because their homes tend to be larger). The difference is currently small, however, largely because mortgage

interest rates are at historically low levels. Today a middle-class income can easily cover the cost of purchasing a home, while adhering to the "golden rule" of financing, which holds that no more than a third of one's income should be spent on housing. Over the long term, however, as interest rates return to normal levels, homeowners' housing costs will increase dramatically – by more than 50 percent. Yet as long as the employment or wage situation does not deteriorate, Switzerland's middle class is unlikely to experience serious financial woes.

Marc Bill is an economist at Credit Suisse.

HOUSING COSTS BY INCOME AND HOUSING TYPE

Housing costs as a proportion of gross household income (percent), monthly housing costs (CHF), bar width = proportion of population



level of its children is not much different from that of their parents. A certain "heredity" in educational level can also be observed. In about half of the cases on average, children attain the same level of education as their parents; roughly 15 percent have a lower level of education, and just less than 32 percent have a higher level. Viewed from a different perspective, however, these findings also indicate that in more than 80 percent of the cases, no decline occurs in education.

Moreover, if we observe the movement of individuals or households between two points in time along the income scale, we certainly can identify a certain mobility in Switzerland. This mobility is higher in the middle class than it is at the upper and lower ends of income distribution.

We should also not ignore the fact that the middle class – as with society as a whole – is undergoing a clear change in education requirements and educational profiles due to the dynamic pace of technological advances. Intergenerational observations based on certain generations may only represent a partial view of these developments, as do strict definitions of what constitutes a "typical" middle-class occupation. Thanks to rising completion rates for high school and higher education, and new educational paths such as universities of applied arts and sciences, it is not unlikely that today's 20- to 30-year-olds may attain a higher level of education, better job opportunities and higher income mobility than the generations before them.

If, in spite of an overall healthy income situation, there is a growing sense of precariousness and insecurity, if this segment of the population is feeling increased competitive pressure in spite of the fact that Switzerland has fared well in the age of globalization so far, only the level of disposable income can explain this discontent.

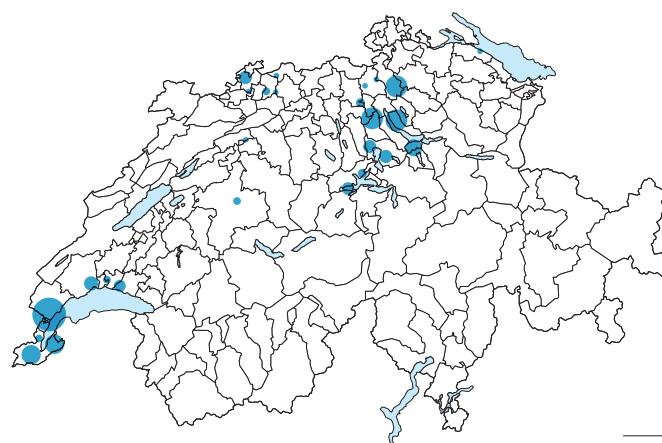
Questioning Social Transfer Policy

Several elements of the current fiscal and social transfer policy framework mean that the bill coming due for the middle class is incorrect. Income-dependent fees in everything from preschool tuition to reduced health insurance premiums, along with the marriage penalty imposed in taxation, cause inequities in income distribution to arise for the middle class. Although the middle class gains much smaller benefits than the lower income classes, it contributes most to financing them. For families and children in particular, the lure of an additional income is

served in other countries. Globalization and technological advancements have raised standards and competitive pressure. However, continuous investments in education and employment qualifications will enable the middle class to sustain this pressure with success. □

Sara Carnazzi Weber is Head of Macroeconomic and Policy Research at Credit Suisse.

WEALTH IN SWITZERLAND



● Region with more than 35% wealthy

diminishing, which, from an economic point of view, represents a loss that should not be underestimated.

The middle class has so far been able to hold its own. And Switzerland has taken advantage of the individual responsibility and achievements of this large population segment. If this is to remain so in the future, policymakers cannot afford to forget how important the middle class is to the general well-being of our society. This means questioning our social transfer policy and the incentive structures it gives rise to as well as preserving the country's comparative advantages. On the other hand, the middle class cannot simply lean back and allow itself to be unduly discomfited by the erosive tendencies ob-

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Switzerland Is Doing Well, Thanks to Its Small and Medium-Sized Enterprises

By Johann N. Schneider-Ammann

First, the good news: Some 60,000 jobs have been created in Switzerland in the past 12 months. Our young people have a future to look forward to. This favorable report is mainly due to our small and medium-sized enterprises (SMEs). In spite of the financial crisis and the strong Swiss franc, they have managed to maintain and even shore up our country's position as a healthy, attractive and prosperous center of intellectual, production and service activity.

Switzerland is a country of small businesses, which is an enormous advantage. The overwhelming majority – 99.7 percent – of the roughly 300,000 companies in our private sector are SMEs. All together, they account for approximately two-thirds of Swiss jobs. SMEs are the backbone of our economy and the engine that drives the country's economic growth.

While global players are more productive, according to a study by Avenir Suisse, small businesses are more agile and flexible. As a result, most SMEs are better able to withstand unfavorable economic conditions. This became apparent during the financial crisis and is also apparent with respect to the currency issues Switzerland currently faces. Thanks to our abundance of innovative and flexible SMEs, we have been more successful than many countries at weathering the financial crisis.

Small and medium-sized businesses play an enormously important role in Switzerland. As economy minister, I am committed to helping such businesses succeed by providing the best possible conditions, while not standing in the way of necessary structural changes. It is our goal to support SMEs and allow them to develop to their full potential.

Switzerland's economy compares favorably with that of other countries. Among its strengths are an open labor market, appropriate levels of taxation, favorable legal conditions and relatively lean administrative structures. We must secure and improve these favorable conditions in order to maintain Switzerland's advantages as a business location in the future. Unfortunately, the past few weeks have brought more and more

bad news. In recent months, a number of well-known companies – from Ascom, Lonza and the Gaba Group to UBS, Actelion and Swiss Life – have all expressed similar concerns: "If we want to be successful tomorrow, we need to adapt our businesses today." Many SMEs, which are usually less well known, are facing a similar situation.



Federal Councillor Johann N. Schneider-Ammann is head of the Swiss Federal Department of Economic Affairs, Education and Research (EAER).

All too often, adapting, restructuring and preparing for the future means one thing: eliminating jobs today. No one takes such decisions lightly. We all know that they affect human beings – and families, who are concerned about the future. There are structural reasons for the planned job cuts in the financial industry. A new strategy is making it necessary to reduce headcount. Other sectors, such as the export industry, are struggling with declining demand in foreign markets or, as in the case of hotels and restaurants, with the strength of the Swiss franc.

The global economic crisis is not yet over, and structural problems are continuing to cause tension in Europe. Thus Switzerland will have to brace itself for difficult times ahead, since half of our revenues come from abroad, one-third from Europe. Forecasts by the Swiss National Bank, the Swiss Institute for Business Cycle Research, the banks' research centers and State Secretariat for Economic Affairs (SECO) all agree that

Thanks not least to our many innovative and flexible SMEs, we have weathered the financial crisis more successfully than many other countries.

we are not yet out of the woods.

Still, our economy is in remarkably good shape, although growth is likely to be slightly lower than anticipated – 1 percent rather than 1.4 percent in 2012. In contrast to most economies, ours continues to grow. A slight positive trend is expected for this year. Even more important than growth, however, is the number of people who are unemployed. In this regard, our 3 percent unemployment rate compares extremely favorably to that of the rest of the world.

If firmly believe that our SMEs are an important reason why we are well positioned for the second wave of globalization. However, we need to do everything in our power to avoid jeopardizing our favorable starting position. This means maintaining our status as one of the top countries in the world in terms of education and research. Innovation is the key to growth in Switzerland. Even if countries like China and India are showing extraordinary success, or perhaps for that very reason, our innovative products and services are essential for our success.

The Children Come First



Education is the key. To ensure that their children can compete in the global employment market, more and more middle-class families are turning to expensive enrichment programs.

By Franziska K. Müller

HIGHER EDUCATION, A COMPREHENSIVE education – formerly a privilege of the upper class and the intelligentsia – now ranks as an important goal for Switzerland's broad middle class. While generations of middle-class children once followed the traditional educational path from grade school to an apprenticeship, today many attend academic high school or even private school. Whether it be for early mathematics enrichment or an outdoor preschool, for dual-language private school, exotic language lessons or a business internship in Beijing – demand is outpacing supply, thanks in part to the middle class.

But what lies behind this emphasis on education? Is it pure status-seeking? Or does it reflect concern about the children's future? "Many parents are worried that their children will not do as well as they themselves did. But also, rising expectations for performance and pressure for certification in the educational system have made middle-class parents more heavily invested in their children's education than ever before," says Margrit Stamm, professor of education at the University of Freiburg. And, she observes, "Early education has become the norm, and academic high school is an undisputed goal."

Worry about the next generation's future is ratcheted higher by globalization. The workforce competing in the job market is both international and educated. Even now, half of all immigrants have a technical college or university degree. This has made Switzerland more and more academically oriented. The number of students at Swiss universities has risen by more than 35 percent in the past decade. Also worth noting: 54 percent of these students come from families in which neither parent has a university degree.

Across all levels of education, 6.8 percent of pupils and students now attend private schools; a decade ago, the figure was just 4.2 percent. In comparison with other countries, Switzerland has a rather small private education sector – probably because the quality of its public institutions is high. However, the numbers reflect an increase of more than 40,000 >

WHAT PARENTS HAVE TO SAY

Monica Cosentino, 34, a sales assistant, and Franco Cosentino, 48, a translator, talk about their daughter Miriam, 14

“Miriam has always had a real gift for languages. In addition to her native languages, Italian and Portuguese, she speaks English, French and German. When she was 11, she began reading books about Tibet and China, and then she was



determined to learn Chinese. We weren't encouraged or pushed as children; we had to work our way up. Pursuing an education as an adult is tough. It demands enormous discipline, and it doesn't necessarily get materially rewarded. With our daughters, we have followed a basic principle: No drilling, but whatever they initiate themselves, we'll support. Violin lessons, painting classes and even the Chinese lessons cost a lot of money. Miriam is ambitious and works very hard, partly also because the others in her peer group have similar interests. She attends an academic high school, and we're proud of that, but we also have to dig deep into our pockets to pay for books, meals, commuting. All these financial commitments have consequences. Until a few years ago, we lived in Horgen, but then we moved to Wetzikon. Our last vacation was three years ago, and we hardly ever go to concerts or eat out. Of course, we both work; otherwise, we could never make ends meet. Miriam is the youngest in her Chinese class, and she's been there the longest. She already knows two thousand characters. Maybe at some point that will help her compete in the global job market. But there's no program for cultivating a good heart – you simply have it. After finishing her studies, Miriam would like to spend a year in Tibet with a relief organization.”

Almut Eger, 45, a process designer, and Pat Eger, 47, a trained electrician, talk about their daughter Livia, 7

“We believe in sustainable and responsible behavior as an important fundamental principle. But values such as respect and cosmopolitanism will also play an important role in the working world of tomorrow. A myriad of nations are represented at the international private school that our daughter Livia attends. The daily routine is multicultural, all in English, and the children consider it normal. Livia's school colleagues come from places like China, England, and the US, and her best friend is from India. The school's Indian community recently celebrated Diwali, the festival of lights, and all the children wore saris and danced to Indian music. More easily than earlier generations, they are becoming citizens of the world and learning that values aren't a function of skin color. We find it regrettable that private schools still have an elitist image. We're a totally normal family with three children who are active in scouting, play music and live in an ordinary residential neighborhood. Outings to the water park or the Swiss Museum of Transport are a rare treat nowadays, and we moms often pass along clothes to each other as the children outgrow them. Most of Livia's

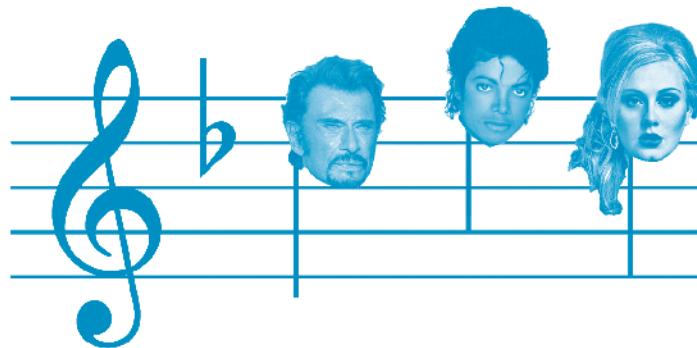


school colleagues also come from middle-class families. Because the parents want to provide their children with the best possible conditions for a good life, they are investing in education. Thanks to small class sizes, teachers in the private schools can pay attention to each child's development and address any differences in performance. Another advantage of private schools is that they follow a standard block schedule, five days a week. A working mother can concentrate fully on her profession if she knows that her child is getting the best care, instruction and encouragement.”

pupils and students in private institutions over the past decade.

"For most of the middle class, education has long since shifted from a public entitlement to a highly competitive private good," says Margrit Stamm. "Parents should give their children a strong start, good seed capital, but then let them make their way in life independently," she comments. Otherwise, Switzerland could find itself in the situation already common in the UK and the US: Fathers and mothers are prepared to go deep into debt to pay for years and years of their children's education. And, in fact, many middle-class parents in Switzerland are already willing to make considerable financial sacrifices to ensure that their children stay competitive in the educational arena. According to a study by the magazine "Beobachter," more and more mothers are working longer hours at their part-time jobs because the family's income no longer suffices to pay for their children's educational enrichment programs. And more than one-third of middle-class families are stretched to their financial limits because of education expenses. Nevertheless, half of them responded that they would choose to provide a child with better opportunities for a career and future rather than decide to have another child.

Private schools, in particular, cost a pretty penny. However, the new institutions are opening not in castles or in charming upscale localities such as Zuoz, Gstaad, or Rolle on Lake Geneva, but in less chic environs such as Olten and Zurich West. Their goals are ambitious: individual support, dual-language instruction, a diploma that makes it possible to study at a university abroad. Or, as one educational institution located in an industrial zone in Zurich's urban sprawl advertises: "Preparation for a successful life as a citizen of the world." A noble ambition. And a legitimate aspiration of middle-class parents for their children. □



The High C of the Masses

Music for the mainstream: How concert promoter André Béchir delivers what most people want.

By Michael Krobath

André Béchir, you and the Good News agency have filled concert venues in Switzerland for 40 years. Do you remember your first major concert?

Pink Floyd, on December 9, 1972. Sepp Voegeli, later the director at Zurich's Hallenstadion, wrote in his review, "This rock music has no future."

How does one know what appeals to the masses?

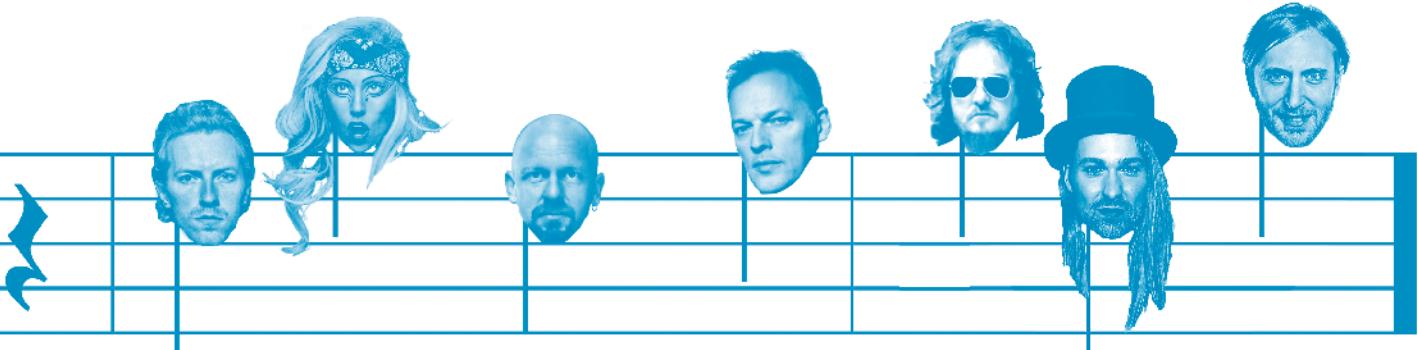
You have to listen to everything. I never accepted freebies from the music industry; instead, I spent several hundred Swiss francs a month on records and CDs. Then I sorted them into three piles: "give away," "listen again," and "definitely contact management for a concert." I always rely on my gut feeling.

Are there not any objective criteria?

Not at all. Sure, Coldplay is an outstanding live band, but nobody could have predicted that they would sell 48,000 tickets in one day. On the other hand, there are artists like The Cranberries. They used to sell 7,000 tickets, and two years later they're hoping for just 1,500 fans at the Volkshaus. Why? I have no idea. There's no formula.

How would you describe the music of the middle class?

It mostly reflects the taste of the general public, the mainstream. This has changed tremendously in the last few decades; the range has gotten more diverse – as has the middle class.



Rock music was at first revolutionary, but in the '70s it mutated into the mainstream. MTV came along in the '80s and brought the triumphal procession of pop, with icons such as Madonna and Michael Jackson. Today, stars representing all sorts of genres fill the concert halls. You see everything from ballad singer Hansi Hinterseer and violinist David Garrett to DJ David Guetta.

More and more, it seems as though the social distinctions in music are being blurred. In the '90s, you even began to stage spectacular opera events successfully.

Well, who says Verdi or Bizet wrote their music for the opera house? You have to make a show out of it. For "Aida," we covered the St. Jakob soccer stadium, field and all, with a carpet of sand, recreated the Nile, brought horses and eagles into the act. So, what do people want? It's quite simple: Bread and circuses.

How did the establishment react?

They turned up their noses and stayed away, while 50,000 fans cheered the spectacle with wild enthusiasm. Generally speaking, political circles and the establishment in Switzerland don't take popular music seriously enough. If I suggest an Ozzy Osbourne concert to a major sponsor, it has reservations because it's heard that Ozzy Osbourne once bit the head off a bat and it's on YouTube. That didn't bother the Queen of England – on the contrary, she invited Ozzy to play in the gardens of Buckingham Palace for her Golden Jubilee.

What are the peculiarities of musical taste in Switzerland?

Multilingualism makes it a more difficult market. A Johnny Hallyday will fill every hall in western Switzerland, while only a few people in German-speaking regions even know his music. With Bryan Adams, it's exactly the opposite. At the same time, the Swiss are culturally very open-minded; just look at their affinity for Italian music. Zucchero or Laura Pausini were never as successful anywhere else as they were here. Also, dialect rock is very popular in Switzerland.

Is dialect rock the new folk music of the middle class?

Not just of the middle class. Take Gölä, for example. He is the prototype of the working class, but all sorts of people come to his concerts. Songs like "Schwan" touch everyone, men and women, doctors, bank directors, everyone. Even though some would never admit it.

Are mainstream concerts part of the "cultural glue" of our society? Absolutely. And maybe now more than ever. People today hardly talk to each other anymore; so much communication is virtual. But when Eric Clapton stands on the stage, that's real. Teenagers, managers, housewives – singing along together, they're all connected as equals, even friends. Such shared social experiences are increasingly rare. Live music is not dead. It's becoming more important all the time.

And more expensive. At ticket prices of 200 Swiss francs, are concerts becoming a luxury to be enjoyed by the wealthy?

Production costs have exploded, that's true. I remember back in 1972 – it was for an Emerson, Lake & Palmer concert – the first time that a semi-trailer pulled up in front of the Wetzikon Ice Arena. "Schweizer Illustrierte" magazine devoted a two-page spread to the event. Today, one concert can call for as many as thirty semi-trailers. I have no doubt that the public will continue to come up with ticket money for the lavish concerts of stars like Madonna or U2. They rank in the very top tier of the music business, and each performance is a unique and unforgettable experience.

You are so passionate about music. Why did you never become a musician yourself?

I never had any interest in it. As a child, I had to play the recorder, and one day while my father was cutting the grass, I threw it under the mower. That was the end of that. I always wanted to be getting something going – organizing events, not playing music. □



André Béchir (63) and his Good News agency have staged more than 4,000 concerts in Switzerland between 1972 and 2012.

Balancing the Budget

How much does a typical Swiss family set aside in savings every month? What value do they place on their car? Do they pay more today for housing than they did 80 years ago? A detailed analysis of a household's budget.

By Thomas Rühl

Savings

Most middle-class families maintain savings. From a business accounting point of view, the amount saved is equivalent to the "profit" that the household has left at the end of the month. The savings accumulated are used to ensure the family's financial security or to fulfill their aspirations for the future. Overall, Swiss households voluntarily save about 8 percent of their gross income. Mandatory savings in pension funds double this value. The savings ratio is currently somewhat higher than it was even 10 years ago. This means that unlike the dot-com bubble, the latest financial crisis has hit Swiss households somewhat less hard, a circumstance attributable mainly to the robustness of the job market. In an international comparison, Swiss households are among the most savings-oriented; in a number of countries, such as Greece or New Zealand, households were overall shown to have a negative savings ratio and to be living partly on credit.

Investment and Rental Income

Across the globe, private wealth is very unevenly distributed – and this is the case in Switzerland, too. One-quarter of all taxpayers have no assets, aside from their pension fund balances. According to the Credit Suisse Global Wealth Report, Swiss adults own median assets of 81,000 Swiss francs, roughly 120 percent of an average annual salary. Only about 0.9 percent of the total income of a middle-class family comes from earnings on assets, which – given the extremely low interest rates – have dropped even lower since the survey was conducted.

Pensions and Employee Benefits

This item comprises state pensions, pensions from pension funds, employee benefits and daily unemployment allowances. The majority of middle-class families draw only family allowances and premium discounts, which is why this item tends to show a low figure.

Sporadic Income

Gifts, sales and reimbursements. Selling unneeded outdoor furniture or mobile phones online is a way for middle-class families to earn (some) money with a small outlay.

Housing and Energy/Food

For the majority of Swiss households, housing costs are the largest expense item. Their share in the budget has risen with the drastic increase in real-estate prices and rents in urban areas. This item shows a sharp contrast between established residents who have owned or rented the residential property for some time and newcomers who are actually affected by this rise in prices. The shopping cart of the national index of consumer prices shows housing and energy (heating and electricity) comprising a 26 per-

Income

Income from gainful employment

Investment and rental income

Pensions and employee benefits

Transfers from other budgets

Sporadic income

Total

Expenses

Social security contributions

Taxes

Health insurance plans: premiums for basic insurance

Money spent on transfers to other budgets

Other insurance, fees and transfers

Food and soft drinks

Alcohol and tobacco

Accommodations

Clothing and shoes

Housing and energy

Furnishings and ongoing housekeeping

Health expenditures

Transportation

Communications

Entertainment, recreation and culture

Other goods and services

Savings

Total

CHF

9,023

90

636

83

370

10,201*

CHF

1,110

845

598

75

532

902

96

570

299

1,539

357

271

857

208

749

320

876

10,204*

cent share of household expenses. This figure is almost as high as in the first calculation back in 1926, when it stood at 28 percent. Although per-capita living space has increased, fixtures have improved (remote-controlled stoves with ceramic-glass surfaces, multi-jet jacuzzis), the number of children has decreased, and per-capita living costs are actually lower when adjusted for quality of life. The decline in spending for food is much steeper. Over the same period, its share of the budget has fallen from 57 percent to 10 percent. While relative food prices are lower today, households have higher real incomes and use the additional funds for other goods and services rather than for food. Compared to 1926, today's middle class has considerably greater resources at its disposal for non-essential goods and services.

→ Health Insurance Plans

At 598 francs a month, the premiums for mandatory health insurance are only slightly lower than taxes (845 francs) for middle-class families. Together with voluntary insurance, families therefore spend more on premiums than they do on taxes.

→ Alcohol and Tobacco

At 96 francs a month, expenditures for alcohol and tobacco have hardly any impact on the middle-class family's spending. The federal budget, on the other hand, shows an entirely different picture: Revenues from taxes on beer, liquor and tobacco make up about 4.7 percent of total tax revenues, thereby making a sizeable contribution to the financial health of the federal government and social security.

→ Transportation

Cars and fuel account for the majority of the middle-class family's transportation expenses. As earned income increases, families spend higher amounts on passenger vehicles. According to the statistics, at least, the choice of car continues to be an indicator of financial prosperity.

→ Entertainment, Recreation, Culture

The middle-class family budget allots the highest proportion of this category to sports (e.g. health club memberships or ski equipment), at a monthly total of 230 francs. Spending on cultural events, books and media comes in lower at 175 francs. Only a tiny amount goes to fine arts: at 28 francs, spending on theater, concert, movie and museum tickets is significantly lower on average than television fees (35 francs). Entertainment electronics purchases and travel packages make roughly the same dent in the budget as the fine arts do. This suggests that only a small portion of households are taking advantage of the wealth of cultural offerings in Switzerland.

→ Other Goods and Services

A number of different expense items fall into this category, such as beauty/grooming and social services. While the costs of child care at day-care centers or with in-home day care providers have a significant impact on the budgets in question, they only add up to 78 francs a month on average. Because only a small portion of Swiss parents have their children cared for outside the family, this item comes in lower in the statistics than expenditures for beauty and grooming products. This example demonstrates that budgets can differ widely depending on the type of household, and that any attempt to describe the average is of limited use. □

Thomas Rühl, Head of Regional Analysis, Credit Suisse Economic Research

* The amounts on either side of the budget do not add up to exactly 10,201 francs because of rounding

Definition: The budget is based on the median family income and represents a hypothetical household with 1.5 children.

The End of an Idyll



Jörn Kaspahl is a Hamburg-based illustrator. His work has appeared in such publications as The New Yorker, Monocle, GQ, Wired and Der Spiegel.



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