

# NO ROBOTS

The position of middle-class households  
in nine European countries

Edited by Arjen Siegmann and Matthias Schäfer



**CDA** **wi**  
Wetenschappelijk  
Instituut

  
Martens Centre  
for European Studies

  
Konrad  
Adenauer  
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No Robots:

The Position of Middle-Class Households in Nine European Countries



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## The Position of Middle-Class Households in Nine European Countries

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Arjen Siegmann  
Matthias Schäfer  
Editors



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# Contents

	<i>Preface and acknowledgements</i>	v
	<b>Summary and Overview</b>	
Chapter 1	Introduction and Summary <i>Arjen Siegmann &amp; Matthias Schäfer</i>	1
Chapter 2	Statistical Overview <i>Arjen Siegmann</i>	13
	<b>Position of the Middle Class per Country</b>	
Chapter 3	Bulgaria <i>Rumiana Stoilova &amp; Mila Staneva</i>	25
Chapter 4	Finland <i>Esa Karonen, Jani Erola &amp; Mikko Niemelä</i>	47
Chapter 5	France <i>Pauline Grégoire-Marchand</i>	63
Chapter 6	Germany <i>Christian Arndt</i>	77
Chapter 7	Ireland <i>Delma Byrne</i>	93
Chapter 8	Italy <i>Rosamaria Bitetti &amp; Federico Morganti</i>	109
Chapter 9	The Netherlands <i>Arjen Siegmann</i>	125
Chapter 10	Poland <i>Filip Pazderski</i>	141
Chapter 11	Spain <i>Miguel Marín &amp; Elisa Rodríguez</i>	157
	<b>About the authors</b>	171



## Preface and acknowledgements

This book explores how the position of the middle class has changed in the past decade. *No Robots* expresses the perspective of households which are not floating as some kind of atomic particles in a macro economy, but consist of human beings who find meaning in relationship to others. Analysing their perspective on the economic situation, globalisation, migration and technology is key, we believe, to understanding political trends. In this context, *No Robots* also expresses the widely-felt anxiety about the replacement of jobs by robots. Households in every country are concerned about the future of work: whether it will be there, whether it will be well-paid and whether their children are receiving the right education to find a job. These are the type of concerns that we uncover for a diverse set of countries from the European Union.

This book is the result of a common project between the CDA Research Institute (CDA-WI), the Konrad Adenauer Foundation (KAS) and the Wilfried Martens Centre for European Studies (WMCES). The WMCES generously provided the premises and organizational support for the workshop on June 13, 2017 in Brussels, where the outline for this book was constructed. Note that the authors write for their own account and that the views expressed in this publication are not necessarily shared by all authors, the participating foundations, or the European People's Party.

We thank Rien Fraanje, former director of the CDA Research Institute, who came up with the idea of starting a common project around the topic of the European middle class.

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# Chapter 1: Introduction and Summary

**Arjen Siegmann & Matthias Schäfer**

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To study the middle class is to study the 'household in the middle'. The middle class takes care of its own members, through work (paid and unpaid), and is neither poor nor rich. The household is the place where individuals live together and make joint decisions. They form the most free and fundamental structure of society. Their experience and outlook matter, and taking their perspective is different from adopting the usual macro-economic approach that takes the economy as the object of study.

The object of our study is the group of households with incomes that are in a range around the median household income. The median is literally the 'middle' in a sorted sequence of numbers, and a common range for the middle-income class is that of 60% to 200% of the median. Depending on the data that are available for each country, alternatives are used that are close to that range.

The nine countries featured in this volume have been chosen to represent the variety of economic and cultural situations in the European Union: some are founding members of the EU and prosperous, others are more recent members and less prosperous. Some are founding members, but with a disappointing development of prosperity and possibilities. But in each country, middle-class households share a common desire for stable employment and economic possibilities that extend as well to the new generation. Together they comprise around two-thirds of the population and combined GDP of the EU-28 countries.

We summarize the main findings below, and end with a finale of three 'big questions' for European policy makers.

## 1. The income perspective

We start in Chapter 2 with an overview of the size and income evolution of the middle-income class between mid-2000 and 2013, and a number of lessons stand out.

### **A few changes in the size of the middle-income class**

Between 2004 and 2013, the middle class in Ireland and Poland increased in size by almost 10 %-points. The middle class of Bulgaria and Germany decreased by almost 5 %-points; other countries show a size of the middle class that stays roughly the same.

The statements about the size of the middle class also hold for an alternative definition of middle class (for example, of 75% and 125% of median income). Hence, conclusions about middle-class size are not simply a matter of choosing a particular interval of the income distribution.

**Low income growth**

For most countries, the increase in median incomes has been close to zero. That holds also for Germany, for example, notwithstanding the huge improvement in employment. Only Bulgaria and Poland saw an increase in the median real household disposable income between 2007 and 2013: over more than 1%. Extending the period to 2015 gives a similar pattern.

**Household adaptation**

An important phenomenon that is not captured simply by the median household income is the role of household sizes. In the visualisation of Figure 2.3 in Chapter 2, this is represented by the term 'equivalised'. Equivalisation means that household incomes are adjusted for the size of the household: a household with one member counts for 1, a household with two members for 1.4, three members 1.7, and so forth. Equivalisation gives a fairer picture of the actual living standard of a household. Household members share the same house, heating and facilities that contribute to 'economies of scale' that makes living together, apart from the relational aspect, economically attractive. In the process of equivalisation, the total household income is divided by the adjustment factor; the resulting income is allocated to each individual member as his or her living standard.

Adjusting for household size increases considerably the net household income. All countries, except Ireland and Italy, now have a positive or near-zero growth of median incomes. The most remarkable effect is observed for Spain: the negative income growth of 3% becomes a zero. This is accompanied by an increase in the percentage of households with (dependent) children. A similar effect is found for France: the negative income growth per household goes together with a larger number of households with dependent children.

The overall picture is that of households that adapt to economic circumstances. Children remain living at home longer or even come back after having finished studies, middle-class households are now mostly dual-earners, and students make choices regarding their education. This is what we would expect from households who are not passive collectors of wages, but active entities in deciding their working hours and family composition, and taking care of each other. But all of this implies that the changing position of the middle class cannot simply be deduced from income statistics.

**Government policies**

Another aspect of adaption can be seen in government responses to the crisis of the past seven years. Due to the global financial crisis, subsequent recession and Euro crisis, all European governments have needed to reform their finances and enact austerity measures. The measures have not hit every household in the same way, and

governments have taken care to not overburden the lowest incomes. This form of social redistribution influences the income distribution and hence the middle class.

Another form of redistribution is through taxation, which includes not only tax subsidies but also direct social transfers such as welfare payments and pensions. In the social model that we observe in most European countries, these policy measures compress the income distribution based on market incomes. This reduces inequality and impacts the size of the middle class, which can be seen in the reduction in Gini-coefficients by social transfers, see Figure 9 of Chapter 2.

The impact of government policies on the size and income of the middle class is a cause for concern. It is the aim of these policies to provide a social welfare state, but its redistributive effects have a limit. An overly strong effect of redistribution reduces the natural incentives that follow from having to earn a market income (i.e., from wages or entrepreneurship). An outsized degree of redistribution may lead to people opting out of the welfare system completely—through exploiting legal loopholes or by informal types of employment. The existence of these mechanisms suggests that we should monitor the social welfare state so that it helps the most vulnerable households and that the redistribution occurs as efficiently as possible.

## 2. Non-income-related perspectives

There are other trends than income that affect middle-income households. They are discussed under similar headers in the country-chapters and a number of common themes are the following:

### **Bubble and crash patterns in the real estate market**

Being able to afford a house is an essential feature of what people perceive as middle class. This does not necessarily mean ownership of a house, but it does mean a stable situation or the possibility for couples to start a family. Where this is hard, the middle-class outlook is negative.

The wealth situation of the middle classes is strongly defined by real estate property or housing. Hence, the rise and subsequent fall in house prices was felt by many middle-class households in Ireland, the Netherlands and Spain. It becomes harder to move when the equity in the house is negative, and the financial fall-out of a divorce becomes large. Moreover, the experience of a market crash reduces the perception of housing equity being a stable source of wealth for the future.

In Poland, a subset of households experienced a financial setback due to their mortgages being in Swiss Francs. The availability of such mortgages stemmed from financial liberalisation and European cross-border banking rules. But they resulted in high risks for some households that were not equipped to deal with such a level of

financial sophistication. It is an example of financial liberalisation leading to a higher vulnerability to shocks.

### **Insider-outsider problems in housing**

The affordability of housing is closely related to planning restrictions for building new houses. For people with a house, planning restrictions are a protection to nearby development that could lower the financial value of their house or the experienced value of the house and its surroundings. A typical middle-class problem is that of wanting to increase the possibilities of housing for their children, without encountering the drawback of real estate development near their own home.

The problem of housing supply is a force for bubble and crash patterns in the housing market. In a normally functioning market, the supply of houses would adjust (with a lag) to high prices, which exerts downward pressure on prices. However, if planning restrictions hamper new development, prices rise even further and speculative forces can make this even more of a problem.

The perception of a housing shortage is felt in almost every country in this study. In Germany, a “renters’ country”, the government has introduced a “rental price break” to maintain affordability. But it cannot hide scarcity in the availability of housing. It impacts the middle class and their outlook on the housing market. Building more houses seems the most obvious solution, but this needs to be balanced against the demands for green suburban surroundings and the countryside.

### **Work-life balance in the dual-earner model**

In many countries, a family needs to have two earners achieve at least a middle-class income. For some households, this leads to stress in combining breadwinning, education of children and taking over the family duties without depending on welfare.

The concerns are most visible in Ireland, the Netherlands and Poland, where prosperity is rising, but households feel a higher pressure in their working lives. No household wants to be left behind, and people are actively engaged in finding work that both pays well and is fulfilling. But there is a widespread realisation that economic well-being is realised in a more flexible, technologically advanced and globalised world that puts more work-life decisions in people’s own hands.

### **Job polarisation and temporary contracts**

In another set of countries, France, Italy and Spain, family stress does not necessarily come from finding the right work-life balance, but from finding work in the first place—or in keeping the job that provides the family’s income. These economic worries play an important role in the well-being of the family.

Economists worry about the potential effects that automation can have on the labour market. The worry is that new forms of work will increasingly be located in the low-end (deliveries, personal services, etc.) and high-end of the labour market, and

that employment for medium-skilled jobs will be reduced. The statistical overview in Chapter 2 shows how job polarisation is taking place in each of the countries of our sample.

In the short-term, job polarisation poses the risk that a laid-off worker in one of the displaced jobs cannot find the right job for his or her skill level. If educational opportunities to achieve a high-skilled job are limited, that individual might need to accept a job at a lower level of skill, and pay. In the longer term, job polarisation is a challenge for the education system and the structure of the job market, in ensuring that future generations can find productive work that pays enough to run a household.

Another trend is the slow increase in the use of temporary contracts, also visible across all countries in this book. Only a fraction of the total labour supply is affected by it, but the trends are clear and workers are acutely aware of them. On the one hand, the trend of temporary contracts follows from a demand by firms for flexible labour and the risks associated with a high employee protection for those with a permanent contract. And temporary contracts do lead to employment and new jobs. But the perception of workers is one of uncertainty and anxiety about finding a stable position to earn an income. Middle-class households feel the declining job security, together with the risk of losing their “social status”. For example, in Italy, a ‘posto fisso’ (permanent contract) is the hallmark of middle-class status, but it has become increasingly difficult to obtain.

### **Duality in the labour market**

In Italy and Spain, the problem of temporary jobs is magnified by the duality in the labour market: some, especially older workers, do have a permanent contract with a high degree of protection and social benefits. This is to some extent inevitable, as it would be quite hard to change existing labour relations. But it implies that the burden of flexibility falls largely on the younger generation, who adjust their expectation of middle-class life accordingly.

### **Public sector employment**

A significant side-effect of austerity measures taken between 2010 and 2015 is that employment in some public sectors (such as education, healthcare and government) were affected. At the same time, these are sectors that contain typically middle-class jobs. The austerity measures affected both the employment prospects in government-related sectors as well as the level of wages that make a middle-class life possible. The effect is particularly felt in countries where the association with a government job and middle-class status is strong, such as in France and Italy.

### **Social mobility**

There is more to the middle class than stability: it embeds the idea that there are opportunities to move up the social ladder. In Finland, Ireland, the Netherlands and

Poland, social mobility is high or improving. The relationship between the occupation of the parents and that of the child is becoming less strong, and education provides opportunities for development.

In more than half of the countries, the social mobility of the middle class is either not very high or declining. In Bulgaria, the strength of the association between the education of the parents and children has increased. In France, the neighbourhood matters for the quality of the schools where people can send their children to. In Germany, climbing the social ladder is more difficult for children from lower social positions. In Italy, the premium on a higher education is in long-term decline, making individual progress more elusive. In Spain, social mobility is low, which is partly explained by the functioning of the education system.

### **An increasing share of elderly people**

Because of the changes in job markets, work and social policies, there is a tendency in at least five countries whereby the elderly form an increasing share of the middle class (France, Ireland, Italy, the Netherlands and Spain). While it is quite understandable that middle-class adherence is rising with age, this has implications for the outlook of younger generations.

### **Urbanisation as a middle-class phenomenon**

For at least four countries (Bulgaria, Finland, Germany and Poland) there is a clear pattern of urbanisation. Many developments have driven urbanisation, and it represents the increasing importance of cities in the global economy. Hence, obtaining an income and the means to start a family are increasingly related to whether people can thrive in an urbanised society.

### **Household size in decline**

Almost all countries show a decline in the average household size and the number of children in the household. This fits with the pattern of Europe being an ageing continent. The causes of the smaller family size are manifold, such as social convention, examples, family income, social structures and the perception of the available help with children. However, one particular cause that arises from the country chapters is that of increased family stress, i.e., the need to combine (flexible) work and relationships with the stability in the household that is needed to raise children.

### 3. Perceptions of economic progress

Regardless of the objective income position and size of the middle class, people have certain perceptions about whether they see themselves as part of the middle class. Two perceptions stand out.

#### **Disillusionment about economic progress**

In a number of countries (France, Italy and Spain), the authors note disillusionment with the economic position of the middle class. It is not just that economic life might be a bit more stressful, or that job uncertainty has risen; it is the expectation of prosperity and the good life that is not met.

Poland and Bulgaria are two countries where economic progress has been rapid. For example, the chapter on Bulgaria shows how the median income has more than doubled in only ten years. Still, there is disillusionment among many middle-class households, who consider themselves 'left behind' in the economic development. Similar sentiments are felt in Poland.

#### **Anxiety about the future**

While in some countries the crisis-experience has been less devastating than in others, the recovery that has taken place across the board has not reassured most middle class households about the prospects for a prosperous future. This includes the fear of losing status, or of losing a job—or some particular other factor that is deemed beyond the control of the household. We see this in Finland, Germany, the Netherlands and Poland. These are countries where an outside observer may note that the economic development is actually quite good, but where a significant fraction of middle-class households see this differently. For Poland, this expectation is partly driven by the comparison with Western European countries and the living standard in Poland that does not match expectations.

### 4. Electoral trends and political representation

Households also contain voters and their experience and outlook are related to electoral trends. The trends are quite country-specific, but two observations stand out.

First, for many countries in this book we find a large middle class that is to some extent not satisfied with their economic position. There is no 'natural' support of voters for centre or centre-right parties, but rather for all sorts of parties that align with sentiments of the middle class.

Second, in Bulgaria and Ireland, voter support for centre-right parties is unchanged and strong. In these countries, the party that is in government is also quite stringent on immigration. The support of middle-class voters is large and did not change much during the refugee crisis of 2015/2016.



## 5. EU-wide trends and their impact on the middle class

Three trends that will affect all European countries are migration, globalisation and technological change. With regard to immigration, the refugee crisis of 2015/2016 was the dramatic climax to a large inflow of immigrants.

The digitalisation process now being witnessed has brought about a job polarisation phenomenon (in skills and earnings) that impacts the employment opportunities of the middle class. New technologies have created high- and low-skilled jobs, while destroying semi-skilled employment, as seen in the overview of Chapter 2. Such job polarisation as well as the reduction in employment in the middle of the education spectrum will have a significant effect on the income distribution and social class structure in all countries, whatever their stage of development.

### **The social system remains under pressure**

A middle-class concern in Finland, Germany and the Netherlands is that future immigration will undermine the social system. Although many immigrants from developed countries might be 'middle class' in their country of origin, they cannot be expected to be middle class in one generation in the new host country. It remains a large challenge to integrate new immigrants while maintaining the high level of social welfare that is there. People are aware of this, and it negatively influences their perspective of becoming or staying middle class.

Some countries in this book face an opposite challenge from migration, which is that of a 'brain drain' of a highly educated younger generation. This is the case in Bulgaria, Italy and Spain. They face the challenge of integrating new migrants from developed countries, while not being able to 'integrate' their own young generation in the economy. This situation brings to the fore the structure of the economy in these countries, which is apparently not well-adapted to highly educated and entrepreneurial workers. Especially these (often young) people are missing in the future perspective of these countries to establish a sound middle class.

### **Technology and globalisation pose opportunities as well as threats**

For many countries in this book, the combined challenges of technological development and globalisation are mostly seen as opportunities. These countries benefit from the increases in productivity<sup>1</sup> that technology brings, and from the potential for growth from worldwide trade and cooperation. The educational system functions, providing new generations with the cognitive and social skills that make it

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<sup>1</sup> See Graetz and Michaels (2015). Robots at Work, working paper, Harvard University. They find that robots increase wages and total factor productivity. The increased use of robots raised countries' average growth rates by about 0.37 %-points.

possible to earn a living and start a family. The jobs might be less certain than for previous generations, but incomes are growing and the work is there.

As far as we can see, the opposite is the case for France, Italy and Spain. There, the state of the education system, the structure of the labour market and other institutional aspects of the economy make for a less rosy outlook for the middle class.

## 6. Finale: Three Big Questions

This being a book about European countries, we feel that it is appropriate to formulate the major challenges that are relevant for the EU as a whole. We express them as the *big questions* that may provide some ideas for this debate and call us, in any event, to be humble and cautious in advocating concrete solutions and recommendations for the challenges ahead.

### I. Is there an expectations problem?

In Europe, one-half to two-thirds of respondents think that their children will be worse-off financially than their parents<sup>2</sup>. This book has also documented these patterns. In Bulgaria and Poland, median incomes have grown at high rates, but people are sceptical about the economic performance. In Italy and Spain, the worst of the economic crisis is over, but households feel that the economy is now much more unfair than before. In the Netherlands, Germany and Finland, the economy is doing fine, but households are worried about job security and future immigrant flows.

Expectations matter, and negative expectations might become self-fulfilling. But expectations are not easy to influence with words or good intentions. Moreover, ongoing changes in the structure of economic growth, from the Gig-economy to the use of AI as 'intangible capital'<sup>3</sup> might in the short-term increase the uncertainty. Households will continue to worry about how they, or their children, will earn a living in the future.

The chapters in this book show that households in the middle are not upbeat about the benefits of technology. Concrete examples on how technology improves economic outcomes within a fair and open marketplace are now more necessary than ever.

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<sup>2</sup> See Pew Research Center (2017) Global Publics More Upbeat about the Economy. But many are pessimistic about children's future. Pew Research Center, June.

<sup>3</sup> Brynjolfsson, E., Rock, D. & Syverson, C. (2017). Artificial Intelligence and the Modern Productivity Paradox: A Clash of Expectations and Statistics (No. w24001). National Bureau of Economic Research.

## II. Have the four freedoms reached their limit?

With increasingly open borders between EU countries, member countries have begun to suffer from the so-called magnification effect. With low barriers to begin with, any new liberalisation has a redistributive effect that is a *factor* greater than the expected benefits. Dani Rodrik has argued forcefully that this effect puts a natural brake on globalisation, and explains a significant part of the populist backlash to international trade agreements<sup>4</sup>.

In some sense, the chapters in this book could be seen as backing up this argument. Although the European Union has grown in size and in the level of integration, middle-class households are more worried now about future prosperity than ever before. One of the reasons could be that they are witness of the disruptive (i.e., redistributive) effects that EU policies have on “their” labour market of origin. Companies regularly replace their factories within the EU, employees compete with workers from other countries, firms compete (by law) with contractors from other countries, and capital flows from surplus to deficit countries. As the economics goes, this increases the overall welfare in the economy. But as human perception goes, the mental costs may outweigh the economic benefits.

The experience of Poland and Bulgaria suggests that the disruption from economic growth itself can outweigh the perceived benefits for part of the population. And even if everyone benefits, the people who benefit the least can still feel left out. We all recognize how quickly we get used to an improvement in our position, but put a high value on salient losses. This is loss aversion at work<sup>5</sup>.

The major political question, as we see it, is about the aims of the supra-national institution that the EU is, and the institutional trust that it is enjoying. If one believes the magnification effect of international trade, then the EU could have a positive role in limiting the fall-out of trade agreements with non-EU partners. It is the EU’s responsibility to ensure that redistribution effects with new trading partners are clear beforehand, and that member states have the time and means to mitigate these effects and make adjustments.

If intra-EU trade is to be stimulated, then politicians operating in the EU context should be aware that any further opening to trade or a free movement of capital and labour could have quite salient effects on individual member states. This might be one of the largest problems facing Europe in the near-term.

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<sup>4</sup> Rodrik (2017) Populism and the economics of globalization. Working paper, Kennedy School, Harvard University.

<sup>5</sup> As described in Kahneman, D. (2011) *Thinking fast and slow*, Farrar, Straus and Giroux.

### III. What is the real understanding of subsidiarity?

The Christian-Democratic tradition puts a strong emphasis on the value of personal responsibility. Individuals, families and households should be able to take responsibility for their own lives, which also gives them the capacity to take responsibility for others. This is what makes living together personally and morally worthwhile and important. At the same time, the state is needed to ensure a public space that is safe and provides public goods and a safety net for people hit by unfortunate circumstances. On a national level, these notions have been articulated brilliantly and have been proven successful, as shown in the development of the post-war German economy, with its Social Market Economy, summed up in the quotation “free economy, strong state” of the ordoliberal thinker Alexander Rüstow<sup>6</sup>.

From this line of thinking, it is less clear how EU institutions fit into this model. They are the result of negotiations and visions of what the common future of European countries should look like. But these institutions need a constant check in terms of whether they put the responsibility on the right level. Subsidiarity is embedded in the European Treaty, but it needs not only to be acted out, but also to be proven in institutional arrangements as well as in the mind-set of the representatives of European institutions.

From the chapters of this book, one could argue that the role of the EU should be increased. For example, there are countries (Bulgaria and Italy) where households place a higher trust in EU institutions than in their own national democracy. However, overriding the nation state might lead to a slow collapse of national democracy and introduces the risk of more severe disruptions in public life in the longer term.

Another, possibly more fruitful, line of thinking forces the EU to state where it wants to put the responsibility. In formulating this attitude, the real fundament for a Political Union would be in the concrete requirements for new institutions, rather than in higher budgets or more centralized competences. The European Union can look back on a historically unique phase of freedom, peace and prosperity. But what has been achieved in the past is no guarantee for the future. It is our opinion that the current situation presents an enormous challenge: to reshape the founding and continuing principles upon which the European Union is based. The first hurdle, is to open up the debate on the “Future of Europe”. This debate would be inspired by the resolve of EU-citizens to create clarity on the role and the responsibility of the European Union and the member states.

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<sup>6</sup> Speech “Freie Wirtschaft, starker Staat” at the conference of “Verein für Socialpolitik” Dresden, 28. September 1932, in: *Printings of Verein für Socialpolitik*, vol. 187.

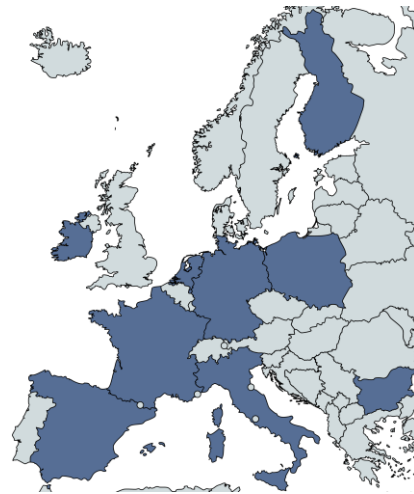


# Chapter 2: Statistical Overview

**Arjen Siegmann**

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This chapter gives an overview of the position of the middle-income class in the nine European countries shown on the map on the right: Bulgaria, Finland, France, Germany, Ireland, Italy, the Netherlands, Poland and Spain. I present the size of the middle class, statistics on income growth, trends in employment, the role of government redistribution and inequality.



**Figure 1: The countries**  
(Source: mapchart.net)

## The Nine Countries

Table 1 lists basic statistics of the nine countries used in this study: population, GDP, GDP per capita and unemployment. For reference, the year of EU membership is included in the last column. Our sample of countries covers 67% of the population in the EU-28 and 69% of total GDP. The countries are in the Eurozone, except for Bulgaria and Poland. Six countries have a higher GDP per capita than the EU-28 average, and six have higher unemployment than the EU-28 average. In all, our sample displays a large degree of variation in terms of how each country fares economically within the European Union.

The large variation in GDP per capita<sup>1</sup> creates a substantial incentive for labour migration, especially from less-productive to more-productive countries. However, this is not borne out in the data for the emigration rates of nationals, as shown in the last column of Table 1. Migration rates vary widely per country, but are not particularly higher for countries with the lowest GDP per capita. Apparently, other reasons than differences in productivity drive intra-EU migration flows. This is also described in the European Commission's annual report on intra-EU migration; see European Commission (2017).

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<sup>1</sup> The high GDP per capita for Ireland gives a somewhat distorted picture of the real size of the Irish economy, by the fact that multinational companies locate a very high fraction of the enterprise's global profits in Ireland; see Honohan and Walsh (2002).

**Table 1: Population and the economy**

Source: Eurostat. Population and GDP figures are for end-2016. GDP is at current market prices, in Euro. Unemployment for April 2017, as a percentage of the active population, seasonally corrected. The emigration rate of nationals is for the year 2014, obtained from the European Commission (2017). \*A missing value for France, imputed by taking half the total migration rate.

Country	Pop. (mln)	GDP (bln €)	GDP per capita (1000 €)	Unempl. (%)	EU member since	Emigration rate nationals
Bulgaria	7.1	47	6.6	6.4	2007	0.4%
Finland	5.5	214	39.0	8.9	1995	0.2%
France	66.8	2,229	33.3	9.5	1957	0.2%*
Germany	82.8	3,134	38.0	3.9	1957	0.2%
Ireland	4.7	266	56.8	6.4	1973	0.9%
Italy	60.6	1,672	27.6	11.1	1957	0.2%
Netherlands	17.1	703	41.3	5.1	1957	0.4%
Poland	38.4	424	11.0	4.8	2004	0.6%
Spain	46.5	1,114	24.0	17.8	1986	0.2%
Total	340.8	10,225				
EU-28	512.1	14,825	29.0	8.7		0.3%
Total as % of EU-28	67%	69%				

### Middle-Class Size

Defining the middle class is not trivial. As described by Atkinson and Brandolini (2013), the middle class can be defined as the status in a social hierarchy, the employment position, or a position in the income distribution. Each perspective has its own problems. The social stratification is complex, the middle class cannot be associated with a single type of employment across all countries, and there are no predefined parts of the income distribution that are by definition middle class.

For the purposes of this chapter (and book), we take the income perspective, for several reasons. The approach is not only the one used by most experts, but also its results are widely available for each country of our study and it provides a consistent way of comparing middle-class size and income growth per country. Also, to the extent that even a flawed economic definition of middle class is correlated with the sociological status of a household, the changes in the size and income of middle-class households are informative. We use the terms 'middle-income class' and 'middle class' interchangeably.

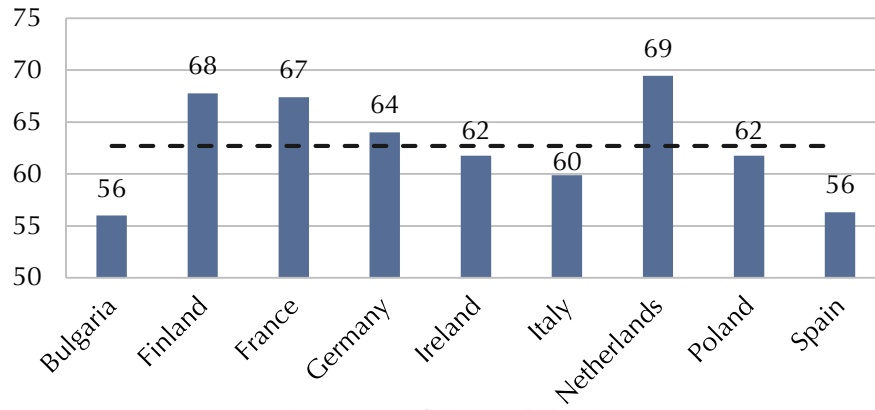
The income approach defines a household as middle class when its income is within a range of the median income. Defining this range is somewhat subjective, and several definitions are used in the literature. OECD (2016a) and Derndorfer and Kratzinger

(2017) provide the most recent cross-country comparison of the size of the middle class, each using an income-related definition of middle class, but with different ranges. They have no data for Bulgaria, for which we use the estimate of Panchev and Nikolova (2013) based on EU-SILC data of 2011 and a definition of 90-210% of the median income. The results are in Figure 2.

Based on the OECD 75–200% definition, the average size of the middle class in 2013 is 64% of the population. It is the smallest in Spain (56%) and the largest in the Netherlands (69%). Moreover, between 2008 and 2013 there were significant changes in the size of the middle-income class; see panel B. Ireland and Poland saw a significant increase in the size of the middle class, each of around 5 percentage points. Bulgaria and Germany saw a relative decline in the size of the middle class of 3 and 3.8 percentage points, respectively. For the other six countries, the size of the middle class has been relatively stable.

The income boundaries for defining the middle class are not set in stone, and a discussion of appropriate intervals appears in Atkinson and Brandolini (2013). However, the patterns of changes in size of the middle class are similar in panels B and C of Figure 2, suggesting that the patterns are not overly dependent on the exact boundaries.

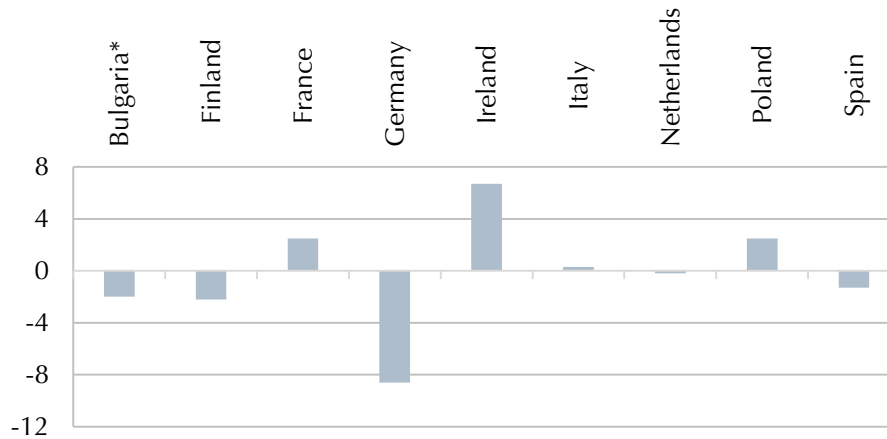




Panel A: Size of the middle class in 2013



Panel B: Change in size (%-point), 2008-2013



Panel C: Change in size (%-point), alternative definition

### Figure 2: Size and growth of the middle class

Panel A shows the size of the middle class 2013, adapted from OECD (2016a). It used the definition of the share of the population that is between 75% and 200% of the median income. The dashed line gives the average at 63%. Panel B shows the change in middle-class size between 2008 and 2013. Panel C is adapted from Derndorfer and Kratzinger (2017) and shows middle-class growth 2004-2013. It is based on EU-SILC data and a definition of middle class of 75-125% of median income. Bulgaria is missing in their paper and is taken from Chapter 3 (Bulgaria) of this book, for the period 2006-2014.

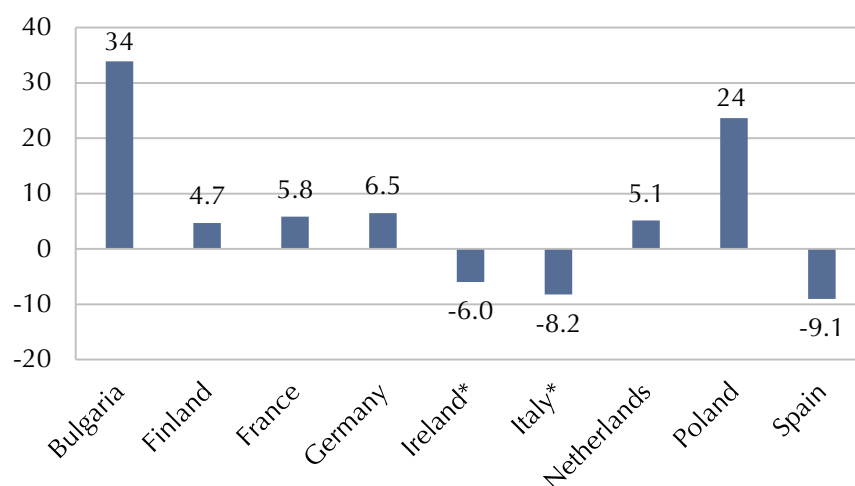
### Median Income Growth

The income growth of the median household is a proxy for the income growth of the middle-income class. OECD (2016b) provides an overview of the growth in real household disposable income between 2007 and 2013 for the median-, top- and bottom income groups. Eurostat provides data on an alternative measure: the net *equivalised* household income. The equivalisation corrects for the composition of a household by adding up all of the incomes in the household, and dividing by a weighted average of household members. Eurostat applies an equivalisation factor calculated according to the OECD-modified scale— which assigns a weight of 1.0 to the first person aged 14 or older, a weight of 0.5 to other persons aged 14 or older and a weight of 0.3 to children aged 0-13— thereby taking account of the natural economies of scale that occur within a household. Figure 3 has the results for the two measures.

Panel A of Figure 3 shows the cumulative income growth for the 2008-2016 period. Two countries stand out as having a higher income growth: Bulgaria and Poland. They are also the countries with the lowest GDP per capita (Table 1) and, as a consequence, more potential for growth. Ireland, Italy and Spain have the lowest income growth, consistent with their economic performance in the aftermath of the global financial crisis.

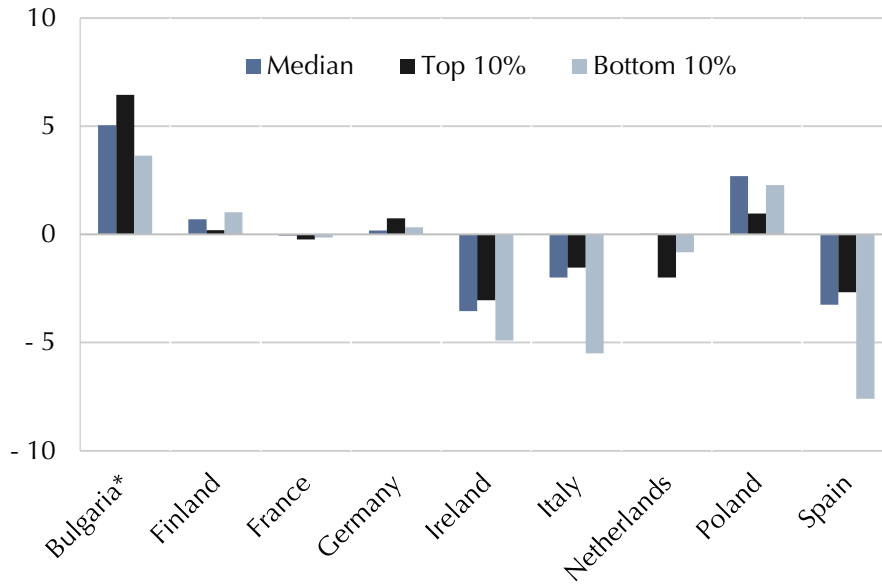
Panel B uses the annualized percentage growth over the 2007-2013 period. The comparison with panel A reveals a similar pattern: the most notable ‘up’ and ‘down’ countries are the same in each panel<sup>2</sup>. Real income growth for the median household was the highest for Bulgaria and Poland, and the lowest for Ireland and Italy.

Panel B of Figure 3 provides additional information on the income changes of the top and bottom 10% of incomes. They are similar to changes in the median income, but the bottom 10% are particularly worse-off in Ireland, Italy and Spain.



Panel A: Cumulative growth of median equivalised income, 2008-2016 (Eurostat)

<sup>2</sup> Eurostat figures for the 2007-2015 period are very similar in terms of median incomes (just slightly lower for all countries); for lack of median disposable income data from the OECD for 2014 and 2015, however, we keep the 2007-2013 period for Figure 3.

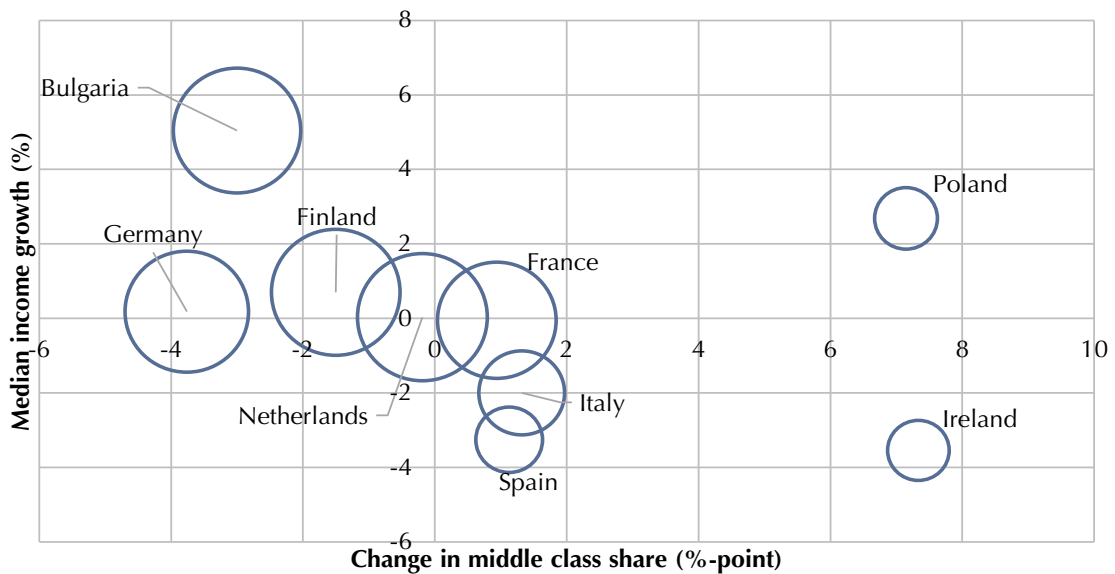


Panel B: Annual percentage change, 2007-2013 (OECD)

**Figure 3: Household income changes**

Panel A has the cumulative of growth 2008-2016 of household income in real terms and using the OECD-modified scale for equivalence weights. \*latest available for Ireland and Italy is 2015. Panel B has net disposable household income changes 2007-2013 from OECD (2016a). \*Bulgaria 2008-2013 from the National Statistical Office of Bulgaria. Sources: OECD/EU-SILC / Eurostat / NSI Infostat.

The bubble chart in Figure 4 summarizes the size changes and income growth of the middle class for the 2008-2013 period. With Poland as outlier, there seems to be an inverted relationship between size changes and income changes.

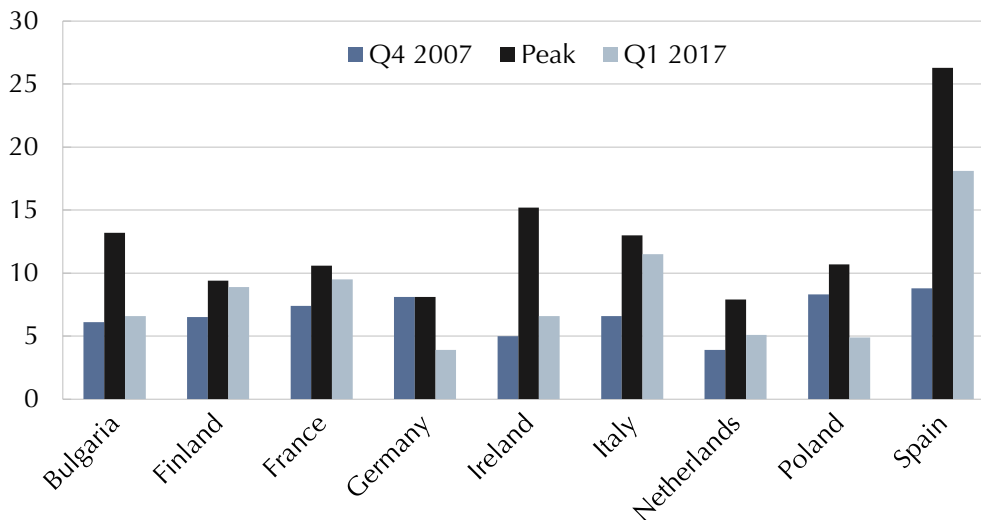


**Figure 4: Change in middle-class size and income growth 2007-2013**

Changes in the size (x-axis) and median income (y-axis) for the nine countries for the 2007-2013 period. Income changes are in annual percentage changes, as in Panel B of Figure 3. The size of the bubble is relative to the size of the middle class in 2013.

## Unemployment and Jobs

Having a job is one of the most important factors in the size and position of the middle class; see Salverda (2015). Figure 5 below shows the trajectory of unemployment in each country as the starting level in Q4-2007, at the peak, and in the first quarter of 2017.



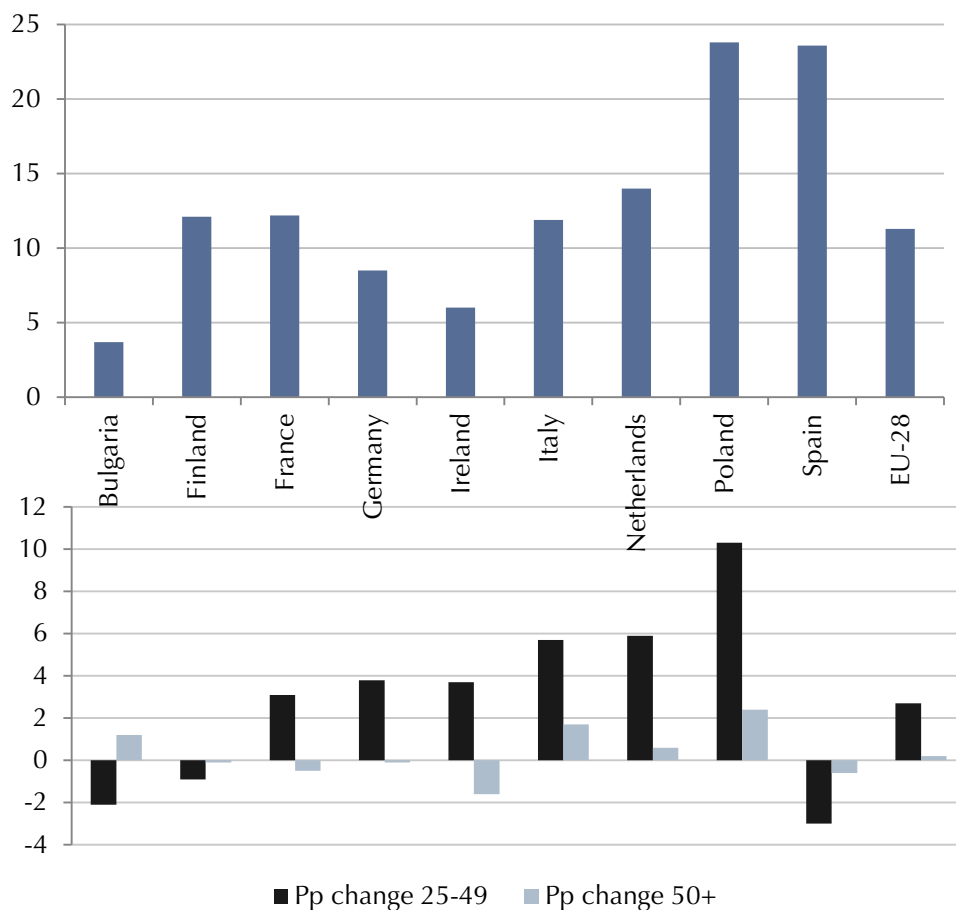
**Figure 5: Unemployment**

The figure shows initial, peak and final levels of unemployment for the period 2007-2017, as a fraction of the active population. Seasonally adjusted data. Source: Eurostat.

For all countries but one, unemployment rose rapidly after 2007 and then declined again. Only Germany is different: unemployment only went down after 2007. Spain had the highest peak unemployment at 26% in February 2013, and Bulgaria, France, Ireland, Italy and Poland had unemployment of more than 10% of the active population in the 2013-2015 period.

The recovery of the labour market shows a similar pattern across countries, except for Finland, France and Italy. There, unemployment levels in the first quarter of 2017 were only between 0.5% and 1.5% lower than at the peak of the recession.

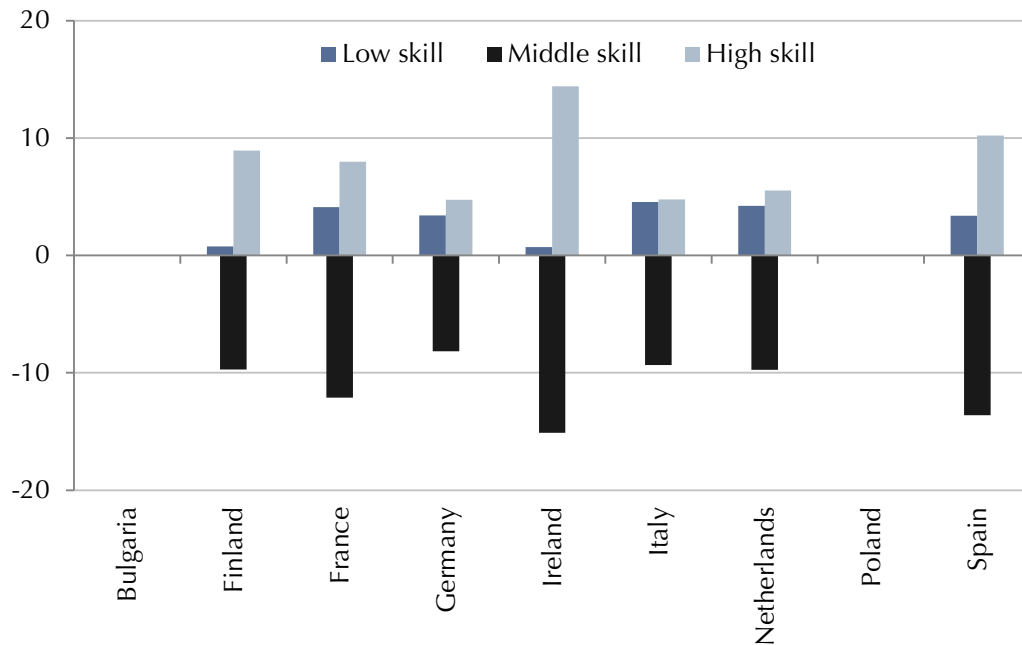
Not all employment is equal. Figure 6 shows the use of temporary contracts and changes between 2003 and 2016. It shows Poland and Spain as the champions of temporary employment, with more than 20% of contracts, and Bulgaria and Ireland as having the lowest percentage, around 5%. However, for almost all countries, the use of temporary contracts for the younger generation (25-49) has been rising. For the 50+ generation, changes in the use of temporary contracts are minute.



**Figure 6: Use of short-term employment contracts 2016**

The top panel shows the total use of short-term employment contracts as a percentage of employment, in 2016. The bottom panel has the percentage-point change in temporary contracts between 2003 and 2016, separately for the age group 25-49 and 50+. Source: OECD (2017).

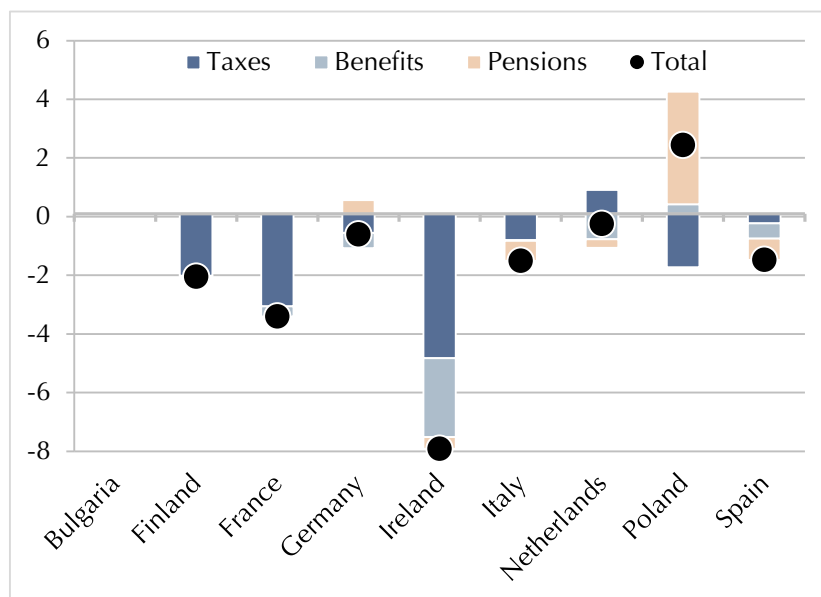
The type of work is changing as well. Figure 7, showing the growth in jobs by level of educational attainment, reveals for all countries a pattern that has become known as ‘job polarization’, featuring a decline in medium-skilled employment and an increase in low- and high-skilled employment. The reasons for the trends are complex and not yet fully understood by economists. The labour market is a complex interaction of the skills of workers and entrepreneurs, education, technology, trade, and the decisions taken by individuals striving to secure an income for themselves and their household. A seminal paper by Autor et al. (2003) considers the evidence for the skill biased technological change hypothesis (SBTC). SBTC states that a burst in technological developments (starting in the 1980s) is responsible for a more-than-average increase in the wages of highly skilled workers in the US, which could be a root cause of increased inequality. For European countries, Marin (2014) shows how the wage premium for high-skilled workers is increasing for some countries and declining for others. To shed light on what a changing job market means for middle-class households, this book presents a per-country analysis.



**Figure 7: Job growth per level of skill 2005-2015.**

Percentage-point change in share of total employment for low-skilled, middle-skilled and high-skilled jobs for the period 2005-2015. Source: OECD 2017. No data available for Bulgaria and Poland.

A final aspect that affects the economic position of middle-class households is that of government policies, and through the tax system, pensions and social transfers. These policies have an effect on the redistribution over households, but can also mitigate the effects of the financial crisis over time, as ‘automatic stabilizers’. Figure 8 shows the contribution of taxes, social benefits and pensions on the net income position of households for the period.

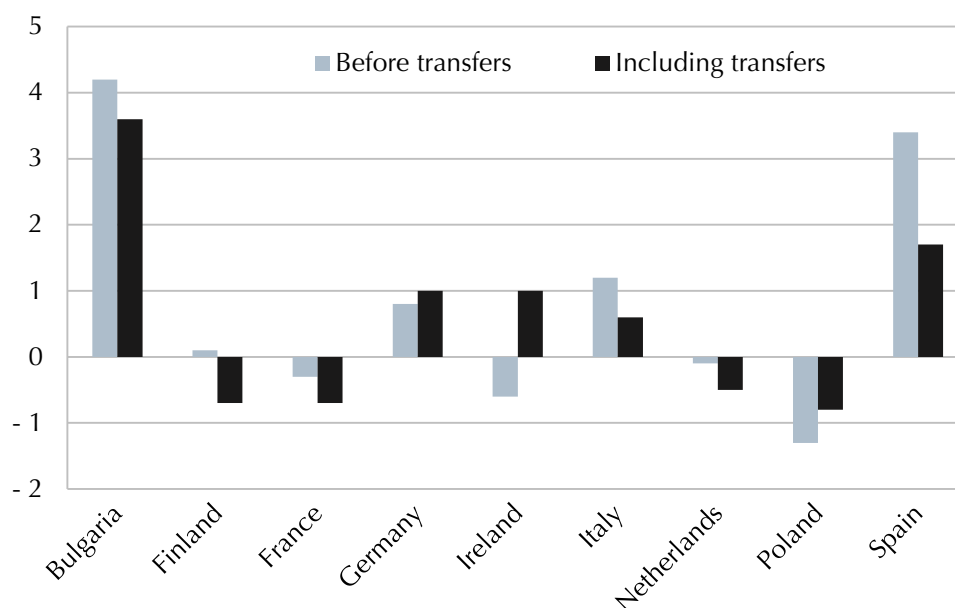


**Figure 8: Contribution of taxes and benefits to income changes 2010-2015**

Percentage changes in household disposable income of middle-income households (75-200% median) due exclusively to tax-benefit changes in the period 2010-2015. Source: OECD (2016a).

A large, negative effect of government policies can be seen for France and Ireland, where higher taxes and lower benefits have caused incomes to drop by more than 3%. There is a significant positive effect for Poland, mostly through the role of pensions, which have more than compensated for an increased tax burden. A more detailed analysis of the role of government policies as automatic stabilizers in the 2007-2013 period appears in Dolls, Fuest and Peichl (2010).

Government policies also have an effect on inequality. Figure 9 shows the changes in the Gini coefficient, a standard measure of inequality, both before and after social transfers (excluding pensions). It shows how initial changes in the Gini coefficient are mitigated by social transfers, but pronounced increases in inequality remain for Bulgaria and Spain. For Bulgaria, this coincides with a large decline in the size of the middle class as well; see Figure 2.



**Figure 9: Percentage change in the Gini coefficient 2009-2015**

This figure shows the percentage change in the Gini coefficient in terms of equivalised disposable income between 2009 and 2015. Pensions are excluded as social transfers. Source: Eurostat.

## Conclusion

The size of the middle class has been remarkably stable for five out of nine countries, with an average size of 64% of the population. It has shrunk in Bulgaria and Germany, and grown in Ireland and Poland. In the past eight years, median household incomes have increased the most in Bulgaria (34%) and Poland (24%), and have shrunk in Ireland (-6%), Italy (-8%) and Spain (-9%). There is a weak relation between changes in the middle-class share and income growth.

The use of temporary contracts in 2016 is high for Poland and Spain (both 24%), but it has increased for six of the nine countries, mostly for the younger generation (aged

25-49). Bulgaria, Finland and Spain have seen a decrease in the use of temporary contracts.

Another clear trend across all nine countries is that of job polarization. Job growth has been taking place in high-skill jobs and, to a lesser extent, low-skilled jobs. Middle-skilled jobs have been in decline, by around 10% per year, in every country for which data is available.

In the aftermath of the financial crisis, government policies have had to balance government budget constraints with social welfare. For most countries, the contribution of taxes and benefits to middle incomes has been negative. The dampening effect of social transfers on inequality suggests that lower incomes have been shielded from the worst consequences.

Concluding, we can say that the size and incomes of the middle class have been reasonably stable, with country-specific trade-offs between stability and growth. However, it is also clear that this stability has been achieved at the cost of higher flexibility in employment contracts and job polarization. Moreover, most middle-income classes have experienced tax increases that were necessary to balance the government budget while retaining social welfare.

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# Chapter 3: The Middle Class in Bulgaria

**Rumiana Stoilova & Mila Staneva**

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The Bulgarian middle class has rarely been considered in research. As a consequence, little is known about the size and the development of the middle-income part of the population, its living standards and political orientations, its opportunities for upward mobility. The present chapter addresses these questions and discusses recent trends and developments in the Bulgarian context that prove important for the positioning of individuals in the social strata.

One such development is the rapidly changing economic structure that has led to an increasing demand for certain professions and a declining demand for others (Eurofound, 2017a). Engineers, who traditionally belonged to the middle bracket of Bulgarian society, provide an example of the latter group. After 1989, in the course of privatization and rapid growth of the service sector, an increasing number of well-educated people in this occupation were faced with the risks of unemployment and loss of social status. By contrast, for ICT professionals, the technological change that took place in the 1990s and the outsourcing of businesses to the country that began in the 2000s led to a sharp increase in job opportunities and provided possibilities for obtaining incomes far above the Bulgarian average.

In general, those who benefited the most from the economic restructuring were the young and highly educated, possessing knowledge of foreign languages and very often having some experience abroad. Older people, the lower educated and those employed in specific occupations (very often in the public sector), were mostly left behind.

Emigration is another important issue for the Bulgarian context. After 1989, Bulgaria experienced large emigration flows (Mancheva and Troeva, 2011). This process was reinforced by the harmonization of educational standards and the introduction of a foreign language in the national educational curriculum at the primary level in 2000<sup>1</sup>, the elimination of visa restrictions on travelling in the European Union (EU) in 2001, the accession of Bulgaria to the EU in 2007, and the removal of restrictions on employment within the EU in 2014. As a result, many Bulgarians pursued employment abroad. This is of considerable importance for the incomes of the bottom 40%. Among post-communist countries, Bulgaria shows one of the highest levels of remittances from foreign countries as a share of the domestic product (World Bank, 2015).

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<sup>1</sup>At the primary educational level, a first foreign language, mostly English, is obligatory from the second grade, and a second Western language is obligatory after the fifth grade.

The process of emigration also has consequences for the middle part of society. Together with decreasing fertility rates, emigration has led to a drastic aging of the population and to a deterioration of the ratio between those in employment and pensioners. Coupled with a low GDP, this development has negatively affected the level of pensions and considerably increased the risk of poverty in old age. Therefore, retirement often means an exit from the middle class. Furthermore, the process of emigration intensified the economic gap between rural and urban areas. Bigger shares of the rural population have emigrated to work abroad or have migrated to bigger cities within the country (IME, 2016). This led to so-called “ghost towns”, populated mainly by low-income elderly individuals. In such rural areas, the opportunities for growth of the middle class are limited, confined rather to those areas that are close to larger towns and cities.

In the following section, we will study the development of household incomes in Bulgaria over the last ten years and show how the relative size of the middle-income group has changed over this period. In a second step, we will study how different factors—in particular, the occupation status, age, residence and household type of individuals—are associated with the chances of belonging to a certain income group. Furthermore, we will provide insights into the living standard of different social strata, by looking at aspects of housing and consumption. At the end, we will provide an overview of the political orientation of the middle class and conclude by reviewing important trends and developments that may be relevant for the future development of the middle class.

## 1. The income perspective

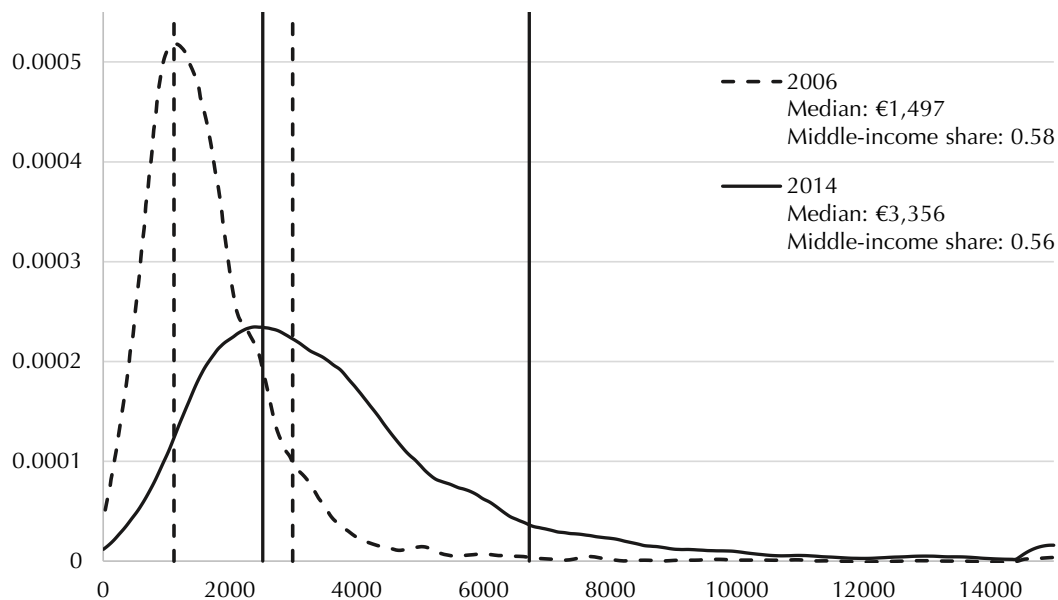
As in the remainder of this study, we adopt an income-based perspective on the middle class, using the interval of 75%-200% times median income as the definition for middle class incomes. We study the position and the development of this middle-income group over a period of nine years, from 2006 until 2014, by drawing on repeated cross sectional data from the European Union Statistics on Income and Living Conditions (EU-SILC). Furthermore, we are able to analyse individual-level changes of the class position over a three-year period by using longitudinal data from the rotating panel study of EU-SILC. Both types of data provide detailed retrospective information on the annual household income obtained in the year prior to the interview. Throughout our analyses, we refer to this income reference period and not to the period of data collection, which took place between 2007 and 2015.

The disposable household income provided by EU-SILC sums various sources of income at the personal and household level (including government transfers), and subtracts taxes on income and wealth as well as social security contributions. The

income measure also considers regular inter-household cash benefits received or paid by the household. This is especially important in the Bulgarian context, because, as noted above, many households rely on financial support from family members working abroad. However, our income measure might not fully capture another important source of income in the country—income from informal work. According to the World Bank, the share of the labour force in informal employment in Bulgaria amounted to approximately 15% in 2008 (Packard et al., 2012). This might lead us to underestimate actual incomes, as respondents might be reluctant to report earnings from unregistered self-employment, and especially from dependent employment without a legal contract.

Finally, it should be noted that the income variable is equivalised, meaning that the income has been adjusted for household size. This is important, since the size and composition of Bulgarian households have changed over the period that we study. In 2007, a household had on average 2.9 members, whereas in 2015 the average household size was 2.5. In addition, the share of households with dependent children has declined by approximately 10 percentage points between 2006 and 2015. This means that household income is increasingly shared among fewer household members. The equivalisation takes account of this development by allowing for comparisons across households of different sizes.

Figure 1 shows the distribution of the annual equivalised disposable household income in euros, for 2006 and 2014.

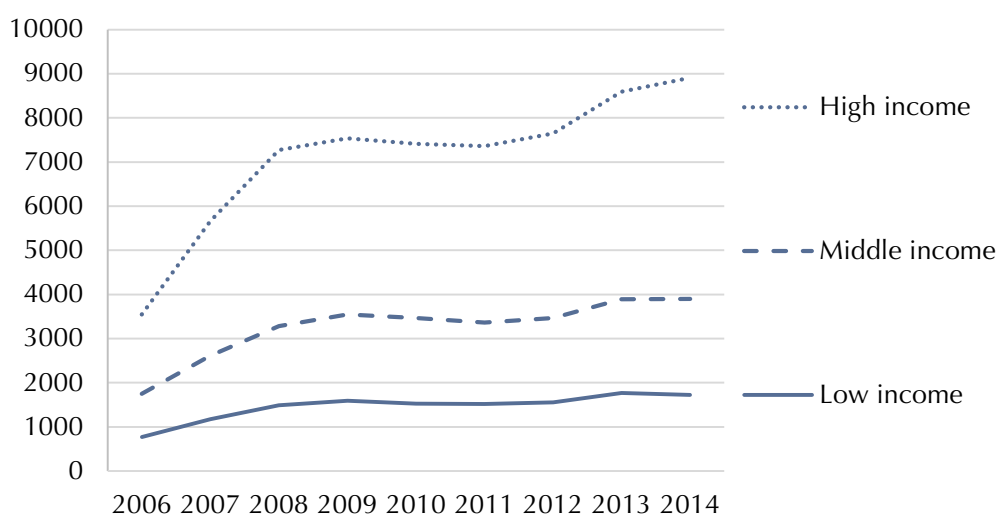


**Figure 1: Distribution of equivalised household income (annual)**

The size of the middle class in 2006 (defined as 75-200% times the median income) is between the blue dashed lines, a share of 58% of households. For 2014, it is between the red dashed lines, a share of 56% of households.

In Figure 1, the areas between the dashed lines represent the middle-income group for the two periods. As can be seen, the equivalised household income increased considerably between 2006 and 2014. The whole distribution has shifted to the right of the income axis and the median has more than doubled. At the same time, the income distribution has flattened out, with a larger right-tail of the income distribution in 2014, and accordingly, a slight decrease in the share of the middle-income group. In 2006, 58% of the Bulgarian adult population had a middle-income position. This share varied slightly over time and was biggest in 2009 and 2011. By 2014, the share of the middle class had declined to 56%.

An additional insight into the changes in the distribution of income over time is given by Figure 2, which shows the development of median annual equivalised household incomes within the different income strata.



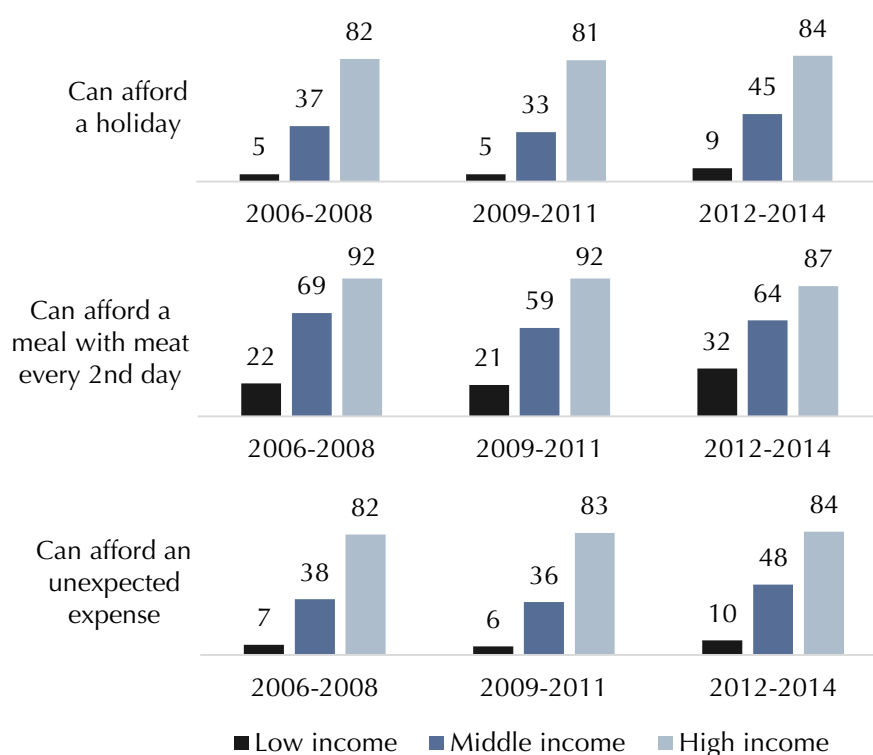
**Figure 2: Income per income class**

Median equivalised annual disposable household income within income groups, 2006 – 2014, in euro. Source: EU-SILC 2007-2015, weighted, own calculations, n=105,451.

From 2006 to 2014, the annual median equivalised income of the middle class increased by 55%—from approximately €1,750 to €3,890. A similar increase can be observed for the lower-income group—from €773 to €1,726 in the same period. The biggest income increase, however, was experienced by the higher-income group. Its median household income changed by 60%—from €3,350 to €8,900.

Across all groups, the biggest income increases were observed between 2006 and 2008. After the outbreak of the financial crisis in 2008, a period of income stagnation followed. From 2012 onwards, median incomes began rising again, at the fastest pace for the high-income group. This indicates an increased polarization of income, as also suggested by the rising Gini coefficient for equivalised disposable income inequality, shown in Chapter 2 of this book.

The middle-income group is not by definition well-off, as shown in Figure 3. In terms of consumption indicators for the period 2012-2014, only 45% of the middle class can afford a one-week holiday once a year and only 48% can pay unexpected expenses. Only 64% can afford a meal with meat every second day. These shares were lowest for the period 2009-2011, after the outbreak of the financial crisis. For the latest observed period, however, the consumption indicators are at a higher (or at an almost as high) level as in the pre-crisis period between 2006 and 2008. This consumption pattern reflects the developments of household income: Until 2008, median household income in all classes had been steeply rising; it went down slightly between 2009 and 2011, and since then has begun to increase again.



**Figure 3: Affordability of consumption per income group**

Source: EU-SILC 2007-2015, own calculations, weighted, n=46,988 households.

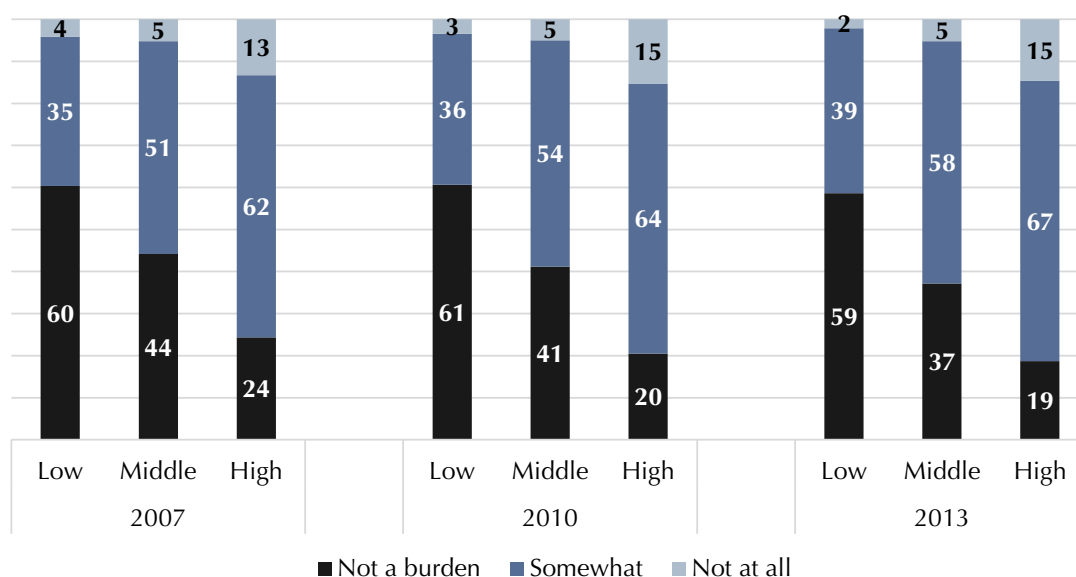
Overall, the consumption capacity of middle-income households remains low. This is also confirmed by an analysis of Eurostat (2015), showing that the median household income in Bulgaria in 2013 had the second lowest purchasing power in the EU (after that of Romania)—despite an increase of 24% in purchasing power since 2008.

## 2. Non-income-related perspectives

This section provides a more detailed picture on the position of the Bulgarian middle class by considering aspects other than income. We look at how different socio-economic, occupational and demographic factors relate to the class position of individuals and discuss how recent developments and characteristics of the Bulgarian context might have contributed to such relationships. Furthermore, we compare aspects of consumption and housing affordability across income classes and over time.

### The affordability of housing

According to our own calculations, over 80% of Bulgarian households own a dwelling. However, dwelling costs, such as heating, electricity and maintenance costs, pose a problem for many households; see Figure 4.



**Figure 4: Influence of dwelling expenditures on household financial situation**

Years are the average for a two-year period. Source: EU-SILC 2007-2015, weighted, own calculations, n=46,988.

In the low-income group, the majority of households experience their dwelling expenses as a heavy financial burden. Strikingly, a considerable share of the middle-class—between 44% and 37% over the period, also does so. Paying for dwelling costs appears to be a problem even for some high-income households. Between 2006 and 2014, 24% to 19% of these households indicated that dwelling expenditures pose a heavy burden on their financial situation.

The experienced difficulties are mirrored in objective measures of the cost of living: In 2015, 14.8% of the Bulgarian population lived in households that spent 40% or more of their equivalised disposable income on housing, while across all countries in the EU this average was 11.3% (Eurostat, 2017).

Particularly vulnerable are households of pensioners living alone in their own dwelling (Eurostat, 2017). The low level of pensions is very often insufficient to cover expenses on heating, electricity and maintenance, which results in a situation of “poor house owners”. Such homes, for their own part, are rarely attractive enough to be rented out and therefore seldom provide additional income for their owners.

### **Family stress**

The dual-earner family model is the dominant family form in Bulgaria. It is part of the legacy left by the communist regime, which strongly promoted the full-time employment of women. Since the transition to a market economy, the dual-earner model continues to prevail, mainly because the low wage levels demand the employment of both spouses. As a result, Bulgaria shows one of the smallest employment gender gaps in the EU. In 2015, the percentage point gap in employment rates between men and women amounted to 5%, compared to a EU28-average of 10 percentage points (Eurofound, 2016). This picture changes somewhat in the presence of young children in the household. Women with children aged between 0 and 3 have a lower propensity for paid employment compared to women without children (see Hofäcker et al., 2013).

In this context, a fair division of unpaid housework and childcare between the spouses and the possibility to ‘externalize’ part of the childcare responsibilities to public or private childcare services is essential for avoiding family stress and the ‘double burden’ for women. However, the actual division of unpaid labour between the sexes still follows a very traditional role model. Bulgarian women take over not only the biggest share of childcare duties, but also most of the housework (Hofäcker et al., 2013; Eurofound, 2017b).

On the other hand, the usage of childcare services for children between 3 and 6 years of age is widespread. In 2011, 58% (compared to an EU average of 47%) of the children in this age group received childcare for more than 30 hours per week (European Commission, 2013). For children between 0 and 3, this share was 7% and was lower than the EU average of 15%. The relatively lower share of children in childcare between 0 and 3 in Bulgaria might be due to the long maternity leave available for mothers and fathers (up to 52 weeks; see Jurviste et al., 2016). Further possibilities for a better work-family balance are generally limited: part-time employment is virtually non-existent in Bulgaria (NSI, 2017a), the working time autonomy is the lowest among EU countries (meaning that working time settings are generally fixed and set by the employer), and only a small proportion of employees engages in home-based telework (Eurofound, 2017b).

To date, little is known about differences in work-family arrangements in Bulgaria between different social classes. Empirical results that show a more equal division of household work for couples in which the woman is highly educated suggest that



middle-class families might have a less traditional role orientation (Hofäcker et al., 2013).

### **The labour market**

The Bulgarian labour market is characterized by relatively low employment protection in comparison to other European countries. As indicated by the Employment Protection Legislation Index (EPLex) developed by ILO (2015), the country scores below the European median in terms of legal provisions and regulations governing the termination and protection of work contracts. In addition, the widespread shadow employment leaves a considerable part of the labour force legally unprotected and uncompensated in case of sickness or dismissal. In contrast to most Western European countries, however, atypical forms of employment are less common. In 2016, only 4% of the dependently employed had a temporary contract, and only 1.8% were part-time employed (NSI, 2017).

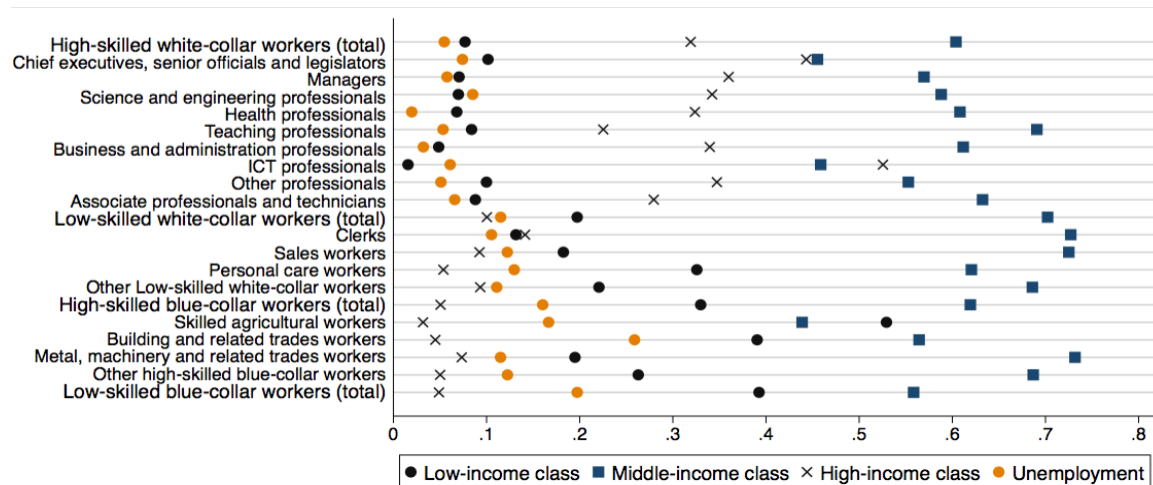
A further important characteristic is the low level of unemployment benefits. Unemployed people not entitled to insurance benefits receive just around €100 a month, although this amount might vary, dependent on the family situation and the presence of children in the household (NSSI, 2016). People entitled to unemployment insurance benefits receive 60% of their previous wage for a maximum period of 12 months (NSSI, 2016). In reality, however, many employers insure their employees on a minimum wage to avoid social insurance contributions, which drastically reduces the amount of compensation in case of a job loss. Statistics show that around 20% of the unemployed receive insurance benefits of up to €100 per month, 31% receive a benefit of up to €250, 49% receive up to €800 (NSI, 2017b). By and large, unemployment in Bulgaria bears with it a high risk of status loss and even social exclusion. In our data, 52% of the unemployed belong to the low-income group in 2014.

Employment security and unemployment risk are unevenly spread over the labour market. In general, the Bulgarian labour market is highly segmented in two sectors: the first offers low-qualified unprotected employment, which often takes place in the shadow economy, and the second contains better protected, higher-qualified jobs, which provide better pay and opportunities for career advancement. Being employed in the latter segment enhances access to the middle- and upper-middle class.

In the higher-earning segment, many new jobs arise from the outsourcing of businesses from Western companies to the country, especially in the ICT sector. Bulgaria is an attractive outsourcing destination because of the relatively lower labour costs, its geographical and cultural proximity to Western Europe, and most importantly, its membership in the European Union. The foreign companies generally offer salaries above the local average and better career opportunities. In the public sector, jobs with comparable levels of qualification offer less attractive salaries,

although the job security is generally higher. Examples for this are teachers and employees in the public health sector.

Figure 5 shows how income strata and unemployment are distributed across different occupational groups for the period 2011 - 2015.



**Figure 5: Type of employment per income class**

Source: EU-SILC 2007-2015, weighted, own calculations, n=42,343.

The figure shows that high-skill white-collar workers have considerable chances of belonging to the middle-income and the high-income group. ICT professionals have the highest chances of belonging to the high-income group. More than half of the respondents in this occupation receive a household income of more than 200% of the national median disposable household income. Teachers (a typical public sector job) have the lowest chances of belonging to the high-income group among high-skilled white-collar workers.

Health professionals (another traditional occupation in the public sector) have a bigger share in the high-income tier, possibly due to the growing number of private providers in the health sector. Science and engineering professionals (an occupational group that was somewhat left behind in the course of deindustrialization in the 1990s and the uptake of the service sector) show the highest unemployment rate among high-skilled professionals. On the other hand, one-third of this group belongs to the higher-earning households.

At the lower levels of the occupational ladder, personal care workers (e.g. child-care workers, institution-based and home-based personal care workers, excluding nurses) have lower chances for a middle-class position compared to other low-skilled white-collar workers. This is most probably due to the relatively bigger share of care workers in the public sector compared to other low-skilled white-collar occupations. Smaller shares in the middle class are observed also among skilled agricultural workers and skilled workers in building and related trades. The latter also show a

very high unemployment rate, which might be related to the high prevalence of informal employment in this occupation.

Overall, the middle class is well represented across very different occupational groups. However, belonging to the lower segments of the labour market is associated with higher risks of unemployment and low income. Remarkably, this is not only the case for the lowest tier of the labour force of unskilled workers, but also holds true for high-skilled blue-collar occupations. The share of the latter group in the low-income class, 33%, is substantial. This might be due to the lower demand for such labour, as a result of the collapse of many industrial and agricultural enterprises in the course of privatization in the 1990s.

### Social mobility

Social mobility is important in every society; the possibility to move up the social ladder motivates individuals and their families for long-term investments in education and work. Table 1 shows the level of individual upward- and downward mobility in different social strata for three time periods.

**Table 1: Income group transitions**

Probabilities for remaining in and changing income groups for three periods, in percentages. Source: EU-SILC 2007-2014 and own calculations, weighted, n=19,098. The dark grey areas represent downward mobility (i.e., a transition to a lower income group).

	Low-income group	Middle-income group	High-income group
<b>2006 - 2007</b>			
Low-income group	69	30	1
Middle-income group	20	72	8
High-income group	5	54	41
<b>2008 - 2009</b>			
Low-income group	77	22	1
Middle-income group	16	81	3
High-income group	2	46	51
<b>2010 - 2011</b>			
Low-income group	74	25	0
Middle-income group	14	80	6
High-income group	2	41	57

During all three periods, 70% to 80% of the individuals with a middle-income status were in the same income group three years later. However, the remaining part of this group experienced more downward than upward mobility. Around 20% of the individuals who were in the middle-income group in the period 2006–2007 belonged to the low-income group three years later, which is very possibly related to the outbreak of the financial crisis in 2008. In more recent periods, the incidence of

downward mobility in the middle class declined. Upward mobility, however, did not increase.

Intergenerational mobility is another important indicator of the openness of the social structure. Using data from the European Social Survey, Eurofound (2017c) compares intergenerational mobility patterns across the member countries of the European Union. Examining absolute mobility for three cohorts born respectively between 1927 and 1946, 1947 and 1964, and 1965 and 1977, Eurofound (2017c) shows for Bulgaria that, in earlier cohorts, men as well as women experienced more upward than downward mobility. For the latest cohort (born in the period 1965–1977) this pattern has changed, meaning that, in absolute terms, this generation could not surpass their parents on a socioeconomic standard. This indicates a slowdown in social progress resulting in fewer opportunities for social advancement. In terms of relative mobility, an indicator for the “fluidity” or the fairness of a society, Bulgaria has experienced a slight decline. Across generations, the relative chances of individuals of different social origins to move across social strata have decreased. This pattern is also found for intergenerational educational mobility. Empirical findings show that the strength in the association between the educational attainment of parents and children doubled between 1995 and 2001 (Hertz et al., 2007).

The lack of opportunities for upward mobility—and particularly, the risk of downward mobility—are drivers of emigration out of the country, especially among the younger population. However, this process is twofold. The young and well-educated are the potentially advancing and upwardly mobile individuals. When they leave the country, lower overall levels of upward mobility within the country should be observed. This “brain drain” also hampers social and economic development, which further reduces opportunities for upward mobility.

### **Generational issues**

Age is one of the factors that lead people to fall out of the middle class. After retirement, even people who had exercised a profession requiring higher education fall into a situation marked by low income and dependence on financial help from their children. The reason is the low level of pensions. In 2010, the monthly amount of retirement pensions varied between approximately €75 and €320 (Boshnakov et al., 2012). With that, Bulgaria has a comparably low salary-pension replacement rate (0.41 in 2015; see European Commission, 2017), meaning that pension income only inadequately replaces pre-retirement income. This results in a situation where the share of older people being middle class, 47% in 2014, is much smaller than the share of 60% for the working-age population (own calculations). Additionally, among EU countries, Bulgaria has the highest percentage of population aged 65 and above that is at risk of poverty and social exclusion (European Commission, 2017).

The cause for the low level of pensions in Bulgaria is the country's low GDP, given that the state budget makes a large contribution to the pension fund. Another reason is the unfavourable demographic structure, which poses considerable challenges to the public social insurance pension system (Asenova and McKinnon, 2007). Due to population aging and extensive emigration, the old-age dependency ratio (the number of elderly people as share of the population in working age) is considerably high (30.2 in 2015; see Eurostat, 2016).

### **Regional differences**

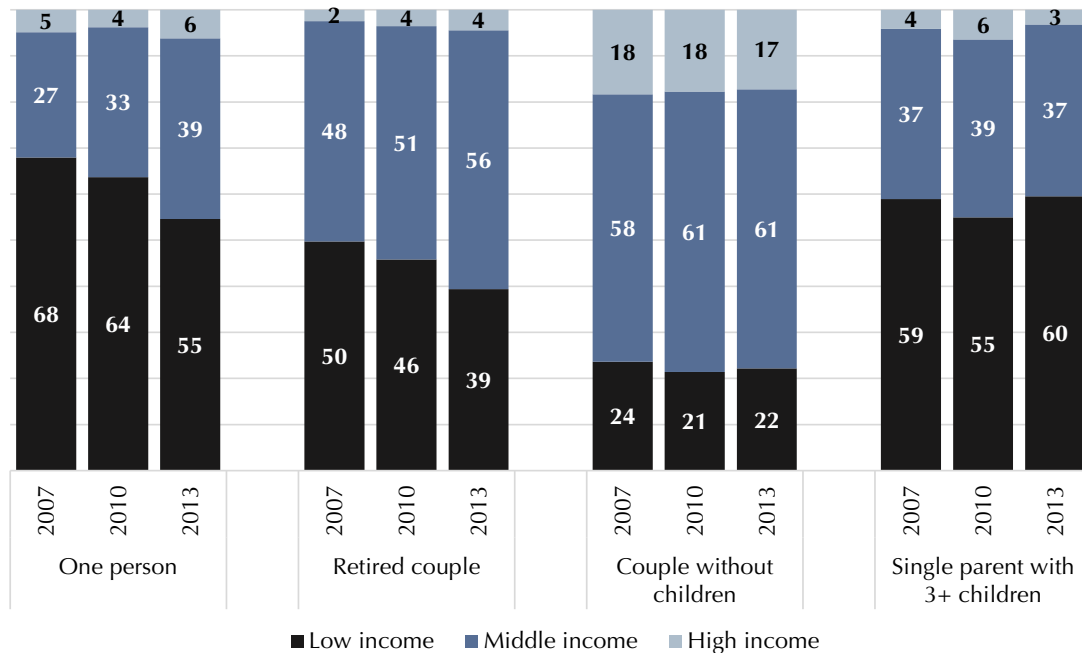
The differences in socio-economic conditions between cities and villages are large. In thinly populated areas, only 48% of the people have a middle class income in 2014, as opposed to 59% for densely populated areas. The thinly populated areas have also seen the largest decrease in the middle-income group, suggesting a trend of people from middle-class households moving to urban areas or abroad. Additionally, the share of the low-income group has been increasing and the share of the high-income group has been decreasing since 2014.

The North-West region and certain districts in north-eastern and southern Bulgaria show the lowest degrees of urbanization, the highest shares of elderly people in the population and the biggest population declines due to migration (see IME, 2016). In these parts of the country, also the most unfavourable socio-economic conditions can be observed. In 2015, the unemployment rate in certain northern districts was almost twice as high as the Bulgarian average of 9% (for example, 18% in the Vratsa district, 19% in Vidin, 22% in Silistra; see IME, 2016). These districts are also marked by low levels of foreign investment and poor infrastructure. With that, the gap between these districts and the richer south-western and eastern parts of the country is big. In 2015, the richest capital district of Sofia had a GDP which was 4.2 times bigger than the GDP of the poorest district Silistra.

A positive trend toward the reduction of regional differences is the development of suburban zones with single-family houses in rural areas in close proximity to larger cities. After the collapse of Communism, this process intensified, both in Bulgaria and in the other post-communist countries. It first encompassed the high-income class and gradually extended to the middle class. After years of uniform consumption and the limiting of housing to homes acquired through the communist state's authority, the possession of a house was one of the freedoms that members of the middle class turned to (Stanilov, 2007).

### Household composition

Figure 6 shows the percentages of households belonging to each of the three income classes—both over time and over household composition.



**Figure 6: Household composition per income group over time**

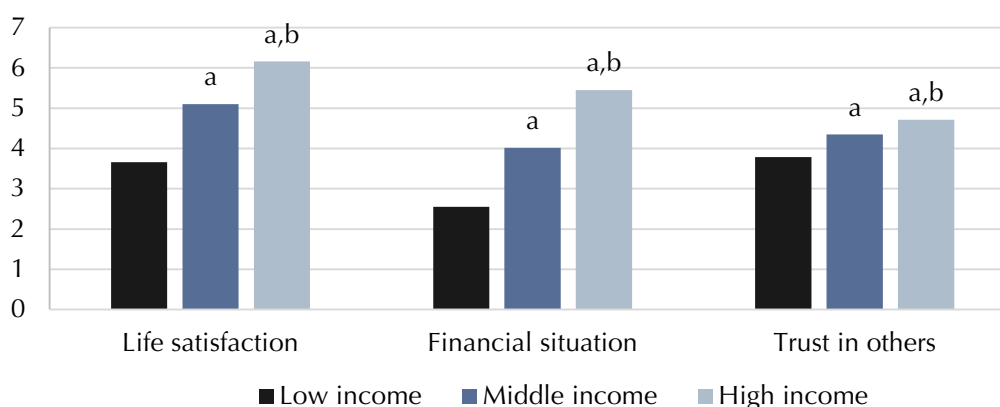
Source: EU-SILC 2007-2015, weighted, own calculations, n=105,451.

From Figure 6 we observe that single-person households and older households without children are increasingly part of the middle class. For single-person households the share increases from 27% to 39%, but is still lower than the overall share of 56% that is middle-income class. Further analysis suggests that this increase might be due to an increase in the share of younger individuals among people living alone. For older households without children, the share of the middle class increases from 48% to 56%. However, its share of the low-income group remains high.

Especially problematic is the situation of single parents and households with three or more children. Only 37% of these households belonged to the middle class between 2012 and 2014, while 60% had a low-income status. The reason for the high prevalence of low-income households among the families with more than two children is not the household type *per se*. Dimitrova (2012) shows that women from ethnic minority groups, especially Roma women, as well as low-educated women, have considerably higher chances for a second and third child. In contrast, women with higher education tend to postpone the birth of the second child and rarely have a third child. In sum, the relatively low education and higher chances for unemployment of mothers with more children, but also the mother's ethnic background, as far as it is highly correlated with education and employment status in Bulgaria, are responsible for the lower share of the households with more children in the middle class.

### 3. Household perceptions

The Bulgarian middle class and the Bulgarian society as a whole seem to be less satisfied with life than are their counterparts elsewhere in the EU. In 2013, Bulgaria showed the lowest level of life satisfaction across EU countries (Eurostat, 2015). Although this satisfaction varies somewhat across income classes, it remains at a relatively low level in each class (see Figure 7). The average life satisfaction of the middle class is still far below the EU average of approximately 7 points on the 11-point scale. Remarkably, the same holds true for the high-income class.



**Figure 7: Life satisfaction per income group**

Source: EU-SILC 2013, own calculations, weighted, n=8,567. a: significantly different from low-income group, b: significantly different from middle-income group.

An important reason for the low levels of subjective well-being of the Bulgarian middle class can certainly be found in the objective socio-economic conditions under which the middle class lives. The median household income is still comparatively low, and many households are financially constrained in terms of consumption and affordability of dwelling costs. These financial constraints are also reflected in subjective measures of the financial situation of the households. For middle-class households, the satisfaction with the own financial situation amounts to 4 points on average, and is below the middle of the 11-point satisfaction scale. Furthermore, a comparison with other EU countries reveals that, within the EU, Bulgarians are on average the least satisfied with their financial situation (Eurostat, 2015).

As known from the vast literature on subjective well-being, the way individuals perceive and evaluate their situation does not result from the assessment of their absolute circumstances, but is due to a relative comparison of their own standing to that of others (Easterlin, 2001). That is, people are more or less satisfied not because they have *a lot* or *a little*, but rather because they have *more* or *less*. From this perspective, one important driver of the low satisfaction of Bulgarians might be that they increasingly compare their socio-economic standing with that of the wealthier

societies in Western Europe. The process of globalization, the presence of international media, the increased possibilities to work, study and travel abroad, and most importantly, the accession of Bulgaria to the EU, have certainly contributed to this process. This could also explain the finding that even the members of the high-income class in Bulgaria (who are per definition better-off than the vast majority of the country) have considerably lower average levels of life satisfaction and satisfaction with their financial situation, compared with their counterparts elsewhere in Europe.

Social trust is another important aspect of people's perceptions. Its measure is instructive for the quality of social interactions, the level of social cohesion and the existence of tension and conflicts in society. Social trust is assessed by the question, "Would you say that most people can be trusted?", and the responses show that Bulgarians from different social classes have little trust in others. This has to do with the high level of corruption in the country and the general dissatisfaction of Bulgarians with the political classes. In the following section we discuss these topics in greater detail.

#### 4. Political representation

After the collapse of Communism, many Bulgarians, who had hoped for a better future in a stable and prospering democratic society, were left disappointed with the outcomes of the transition process. Although the country registered considerable economic improvement and was accepted to membership in the European Union, many political, social and economic problems remain unsolved. One such problem is the widespread corruption in the country.

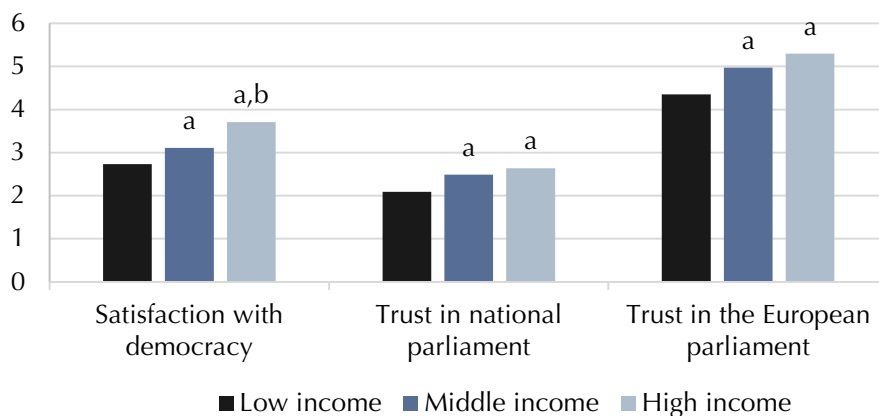
According to the Corruption Perception Index for 2016, Bulgaria is considered to be the most corrupt country within the EU (Transparency International, 2017). Not only the private sector, but also major institutions of the state are affected—in the first place the judiciary and the law enforcement bodies, such as the police (Transparency International, 2011). This has negative effects on the economy and the society as a whole. First, the prevailing corruption and nepotism undermine economic growth through misgovernment, tax evasion and inefficient public spending (Rothstein, 2011).

Second, corrupt practices directly foster social inequalities by enabling particular groups to gain economic advantages and power. Especially in the course of privatization in the 1990s, many members of the former regime managed to translate their political power into economic power in this manner. Third, the spread of corruption is closely linked to the rise of organized crime (Shentov et al., 2007). Overall, this makes for a situation of general dissatisfaction, mistrust and uncertainty.

As demonstrated in Figure 8, the dissatisfaction of Bulgarians with politics is common for all social classes. On average, all three income groups express low



satisfaction with the current state of democracy in the country. All classes place little trust in the National Parliament. In contrast, trust in the European Parliament is as twice as high for all classes, compared to the trust in Bulgaria's own parliament.

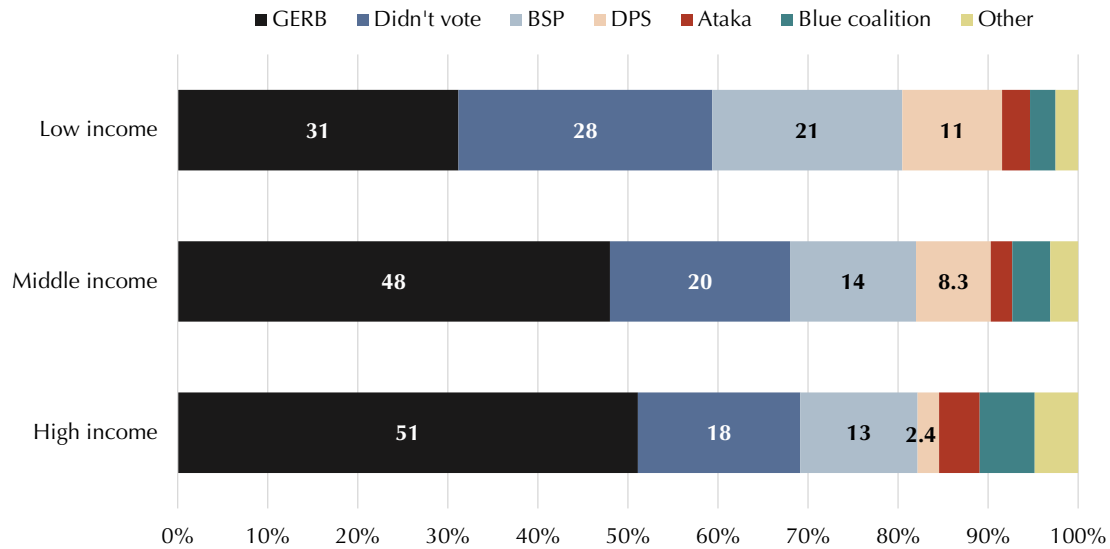


**Figure 8: Trust in political institutions**

Source: Round 5 of the European Social Survey (ESS), collected in 2010. Weighted, own calculations, a. significantly different from low-income group, b. significantly different from middle-income group. The low-income group is the lowest decile of disposable income. The high-income group is the highest decile. All other respondents belong to the middle-income group. The resulting class distribution roughly corresponds to the class distribution observed in EU-SILC for 2010.

In a context of general political dissatisfaction, the risks not only of political disengagement, but also of populist parties gaining support, are high. This leads us to assess the voting behaviour of Bulgarians, by analysing self-reported political choices in the parliamentary election in 2009 (Figure 9). It should be noted that the self-reported voting behaviour does not fully correspond to the actual outcome of the vote. The share of self-reported votes for the winning party is higher than the actual outcome, and the non-voting share is smaller than suggested by the actual turnout. Apart from this pro-winner bias, the self-reported vote choice proportionally matches the outcome of the election.

The winning party in the 2009 parliamentary election was "Citizens for European Development of Bulgaria" (GERB). It is a centre-right political party, established in 2006. In the European Parliament, the party is part of the European People's Party-European Democrats Group. As shown in Figure 10, GERB was the most successful in attracting voters from different social strata and received significant support from the middle class. 48% of the middle class reported having voted for GERB. In contrast, only 31% of the low-income group reported having chosen this party.



**Figure 9: Self-reported voting by income group**

Source: ESS Round 5, weighted, own calculations, n=1,760.

Class differences can be also observed in the self-reported support for the Bulgarian Socialist Party (BSP), a successor of the former Communist Party. 14% of the middle-income group and 13% of the high-income group reported having supported this party. In the low-income group, this share is 21%. BSP is the leading party on the centre-left side of the political spectrum. In the European Parliament, it is part of the Party of European Socialists. Nevertheless, its openly pro-Russian agenda often contradicts EU objectives and policy lines.

ATAKA (Attack), an ultranationalist right-wing party with racist (especially anti-Roma and anti-Muslim) viewpoints, won 9.4% of the vote in 2009. In the European Social Survey (ESS), the support for this party is misreported. Within the middle class, only 2% of the respondents reported having voted for ATAKA. Surprisingly, this share is bigger within the high-income class.

With respect to voter participation, the data from self-reports does not suggest that the middle class is politically disengaged. Only 20% of the middle class reported that they did not vote in the 2009 election, as opposed to 28% of the low-income class.

In the last parliamentary election in March 2017, GERB again won the biggest share of the votes (33%), followed by BSP (27%) and the United Patriots (9%), a nationalist alliance formed by Attack, the National Front for the Salvation of Bulgaria (NFSB) and the Bulgarian National Movement (IMRO). However, due to the 4% electoral threshold, some parties which explicitly target the middle class have remained unrepresented in the national Parliament. These are the Reformist Bloc, New Republic, "Yes, Bulgaria!" and the Greens. What these parties share are democratic and pluralist right-centrist views, a strong pro-EU position, and an agenda that stresses the importance of the rule of law and the fight against corruption. Together, the four

parties received around 300,000 votes. “Yes, Bulgaria!” did rather well in Sofia, where it emerged as the third largest party.

Political scientists pose the question of why the right-centrist political formation represented by the Reformist Bloc, New Republic, “Yes, Bulgaria!” and the Greens did not succeed in entering the current parliament. According to some, the problem is that these formations were not able to gain the confidence of the local communities in rural areas (Kolarova, 2017). That is why the vote for these parties was limited to the capital and some large cities in the country. In fact, the limited possibility for growth of the middle class in small settlements and poorly developed regions (like the North-Western region) leaves a wide field for populism and support for the Socialist Party and is a major obstacle to the stable political representation of the middle class.

## 5. Globalisation, technology and migration

Three global trends that will affect all European countries in the near future are migration, globalization and technological change. Important challenges for the middle class in Bulgaria will stem from these trends as well.

The emigration of well-educated Bulgarians of working age results in limited possibilities for growth of the middle class. This so-called “brain drain” hampers economic development, which further fuels emigration. Reverse migration is a desired future change. However, empirical findings show that although the numbers of emigrants returning to Bulgaria have been rising in recent years, the profile of the returnees is mostly that of lower educated people (Zaiceva and Zimmerman, 2012). The creation of new jobs, the start of new businesses and a higher quality of employment are essential for limiting emigration and accelerating further reverse migration, especially of the better educated. The promotion of initiatives that help returnees to (re)integrate in the Bulgarian labour market might also prove helpful in this respect.

In Bulgaria, as elsewhere, the people who benefit the most from globalization and technological change are the well-educated young, possessing skills that are in demand. People over the age of 50 and those with few qualifications will have a hard time adjusting economically. Higher investments in education and more opportunities for life-long learning and on-the-job training would counteract this development. This is an area where Bulgaria could improve greatly.

The economic opportunities for strengthening the middle-income class lie in the overall growth of the economy. In this respect, a further integration of Bulgaria into the EU and its stronger cooperation with the member states are of great importance. The linking of the country to Europe—for example, through transport and energy supply—would accelerate trade and attract foreign direct investment. This would

facilitate economic growth and modernization and help the country to cope better with the challenges of globalization.

## 6. Conclusion

This chapter showed that while the middle-income class comprises a large part of the Bulgarian population (around 56% in 2014), the middle-income group—in socio-economic terms—still falls short of fulfilling what the term “middle class” implies. The median household income of the middle-income group is relatively low. Almost half of the middle-income households report that they cannot afford unexpected expenses, a finding which suggests that the amount of discretionary income is insufficient. The opportunities for upward mobility are limited—only a small proportion of the individuals with middle-income position obtain a higher status some years later.

The middle class in Bulgaria is not only weak but also disappointed—not the least when it compares itself with the prosperous middle class in Western European countries. This is mirrored in a low average satisfaction with life and a low satisfaction with the own financial situation. The widespread corruption and nepotism in the country as well as the growing social inequality provide other reasons for the dissatisfaction of many members of the middle class. These issues not only lead to low levels of trust in the political institutions, but also generate a low-trust environment in which most people do not trust others.

Another main characteristic of the Bulgarian middle class is its uneven representation across the country. In rural areas, the poor healthcare, education and transport infrastructure, as well as the lack of employment opportunities hinder the development of a large and stable middle class. Lagging furthest behind is the North-West region. The South-West region, in contrast, is developing quickly and dynamically in economic, demographic and cultural terms. It includes the capital, Sofia, which absorbs the greatest part of the country’s investments and is home to a large part of the country’s middle class. The economic and human capital gap between the capital and the rest of the country is a major obstacle for the growth of the middle class.

Nevertheless, a look at the developments over the last ten years suggests a positive trend towards improvement and strengthening of the socio-economic standing of the Bulgarian middle class. Although still low, the median income of the middle class has been increasing during the last years. In terms of consumption indicators, a larger share of the middle class is now better off, compared to the situation before the financial crisis.

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## Chapter 4: The Middle Class in Finland

**Esa Karonen, Jani Erola & Mikko Niemelä**

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At the time of writing this chapter, Finland is celebrating its 100<sup>th</sup> year of independence. On the journey of one hundred years, Finland has faced several structural changes—among them, changes in the status and well-being of the middle class, and perhaps even more importantly, changes in what is understood by the designation ‘middle class’. The country has developed from an agricultural-based economy to a modern service-based welfare society and technological forerunner.

A few major factors contributed to the development of the Finnish middle class. First, in the 1960s, Finland began to build a modern welfare state according to the examples of its Nordic neighbours. Although this development could only have taken place once the country had reached a sufficient level of affluence, the creation of the middle class was, more than anything, a political decision. By the 1960s it was widely accepted that overly large social inequalities would be detrimental for the society as a whole and that all citizens, urban and rural, should thus be provided with equal services and benefits. As in other Nordic countries, the expansion of the welfare state in Finland may be thought of as a middle-class project that emphasised universal public services and benefit schemes including both statutory earnings-related benefits and minimum flat-rate benefits (Kangas 1991; Kettunen 2001; Orjala & Eloranta 2006). All in all, the expansion of the welfare state was a major factor contributing to narrowing the economic and social inequalities between social classes.

Second, the rapid economic growth that took place after the Second World War accompanied a major change in the occupational structure (Alestalo 1986; 2007; Jäntti et al. 2006). The main economic activity shifted from agriculture to manufacturing and services. In Finland, the growth of the services sector has largely been a result of the growth of the public sector (i.e. schools, social and health services). To this day, the public sector is still large in Finland. In addition, in the context of this chapter, a major part of the middle class (especially women) works in the public sector.

Third, educational expansion has also offered a platform for the growth of the middle class. The literature suggests that social mobility in Finland has been relatively strong compared to other countries (Erola 2009, Jäntti et al.). It seems that the increasing educational level of the population, due first to the compulsory schooling renewal, and later to the increase of secondary education degrees, has contributed to this mobility (Pekkarinen, Uusitalo & Kerr 2006; Erola 2009).

These structural changes formed a foundation for the development of the Finnish middle class. Less is known, however, about the expansion of the middle class. Indeed, the term ‘middle class’ is hardly ever used in Finland to indicate anything other than a



cultural concept—with the term typically used to refer to a certain kind of lifestyle, attitudes and values, as well as consumption patterns, rather than to a group in the income distribution. ‘Middle class’ is more strongly associated with occupation-based social classes or even with education—although its use even in those contexts is relatively infrequent. The social classes in Finland are typically distinguished into groups that are, to some extent, similar to the Erikson-Goldthorpe-Portocarero (EGP) class classification (Mihalos 2014), including service class (upper or lower), working class (also including routine non-manual workers) and entrepreneurs. For instance, one could argue that skilled workers in Finland have become “middle-classed” in terms of these more cultural aspects of everyday life—and indeed this line of thought has even been used as a political argument. The concepts of upper and lower middle class are also sometimes used as synonyms of upper or lower service class.

## 1. The income perspective

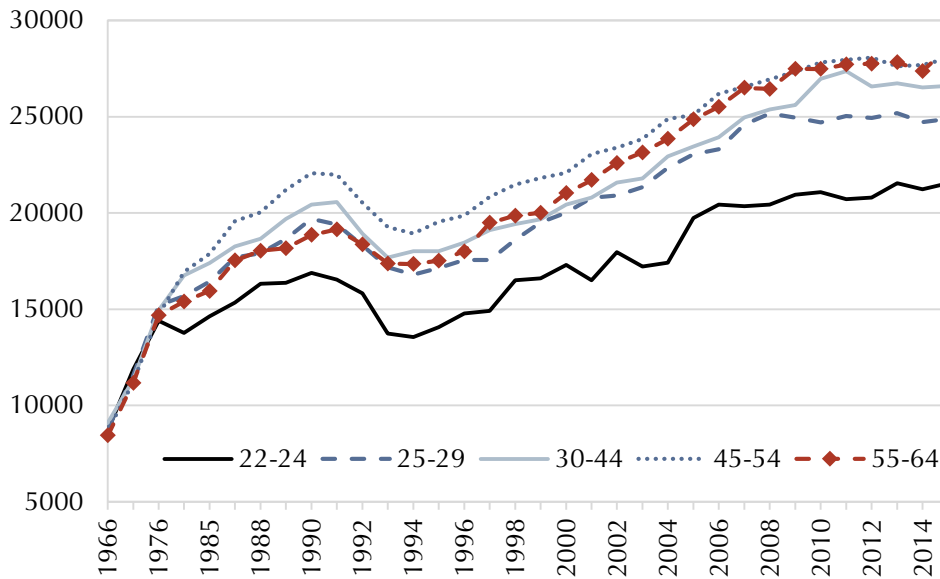
We define the middle class as individuals in households with a disposable income between 60% and 200% of the median disposable income. Those below 60% would belong to the lower income classes, while those above 200% of the national median income would be the upper income classes. In order to identify these classes, we adjusted household income for inflation, equivalising this with the OECD-modified scale (Foster 2013). Under our definition, the Finnish middle class in 2014 represents 78% of the population. This percentage is higher than reported in the statistical overview in Chapter 2, which puts the size at 68%<sup>1</sup>.

The variation in the size of the middle class over time is small—although one may observe an effect of the economic shock of the early 1990s. This appears as a slight rise of low-income classes and as a doubling of the proportion of the high-income earners by the end of the decade.

The severe economic recession during the early 1990s is an important focal point for the discussions below. Among the various reasons for the severe financial crisis of the 1990s, some of the crucial drivers include the rapid collapse of the export market of the Soviet Union and underdevelopment of the Finnish banking system. During the crisis, unemployment rose from 3% to over 16% in just three years. Effect of the recession is also evident from the income trajectories shown in Figure 1. The crisis was followed by very strong economic growth, linked with the ICT boom more generally. As a result, wages rose and public spending grew.

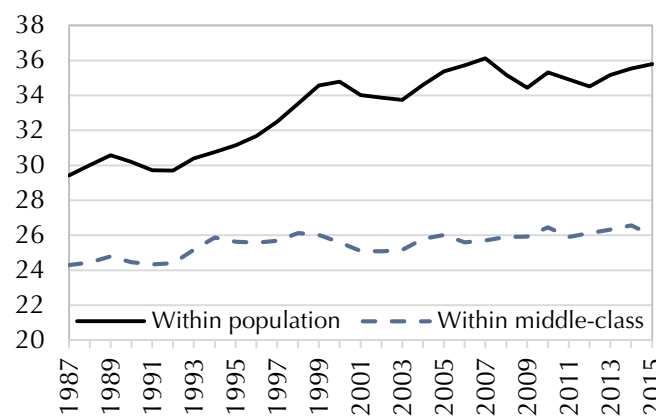
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<sup>1</sup> As reported by OECD (2016) for the year 2013; that study uses a 75%-200% definition, which obviously reduces the size



**Figure 1: Middle class net real equivalised household income by age group**

In Finland, the trend of income inequality since the 1960s can be divided into five periods (Blomgren et al., 2014). First, the era of welfare state expansion in the 1960s and 1970s decreased income inequality (regardless of the type of income differences considered). Second, from the mid-1970s to the economic recession of the early 1990s, market income inequality increased, but due to income transfers, gross and disposable income inequality remained constant. Third, the recession of the 1990s increased inequality in market income but not in gross and disposable income. Fourth, whereas since the mid-1990s, market income inequality has been constant, inequality in gross and disposable income increased towards the early 2000s. (Figure 2) From a comparative perspective, the increase in income inequality was exceptionally fast and steep in Finland during the period between 1995-2002 (OECD 2008; OECD 2011). Fifth, since the turn of the millennium, the development of income inequality has been rather stable.



**Figure 2: Income inequality in Finland—Gini**

Measured in percentages. Source: Own calculations, OSF Income Distribution data

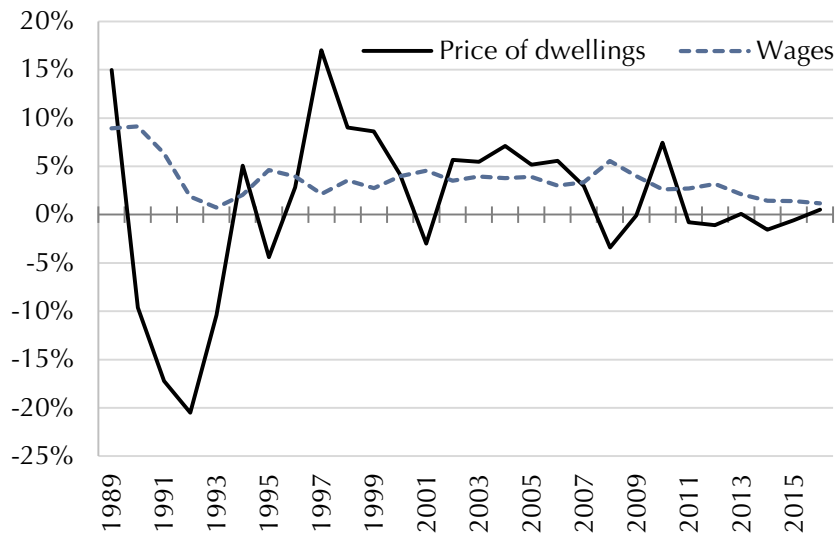
The increase in income inequality in the 1990s is largely due to capital income (see OECD 2008; 2011). Due to capital income, the income share of the highest income decile—and especially in the top 1%—increased drastically during the second half of the 1990s. A catalyst for this process was the tax reform of 1993, the opening of the financial markets in the early 1990s and the economic boom in the late 1990s. The tax reform eliminated progressive taxation on capital income but kept income tax progressive. This provided a clear incentive for wealthier households to rebalance their activities and focus attention to obtain income from capital. The tax reform made financial and fiscal planning by the top-income earners worthwhile, in order to shift their income more towards capital income.

## 2. Non-income-related perspectives

### **The affordability of housing**

The ability to acquire a house is one of the hallmarks of belonging to the middle class. This is directly connected to prices of dwellings and the ability to manage housing loans. In Finland, every third household has housing debt. About half of the owner-occupiers and those aged 25–54 have housing debt (Putkuri 2015). Thus, buying a house is usually the most important investment for the middle class, and the ability of individuals to afford different types of dwellings is connected to their economic situation at the time of purchase.

The housing market is connected to economic fluctuations, and is susceptible to debt-driven asset price bubbles during economic upturns. Figure 3 illustrates how the recession in the 1990s decreased the prices of dwellings. Similar (but milder) changes can be seen during the economically less severe IT sector crash in 2001 and the financial crisis of 2008. Thus, the relationship between wages and the prices of dwellings illustrates how acquiring a house is connected more to the timing of purchase than to income-related changes. Middle-class buying power in the housing market is important, obviously going hand-in-hand with housing market fluctuations.



**Figure 3: Annual percentage changes in prices of dwellings and wages**

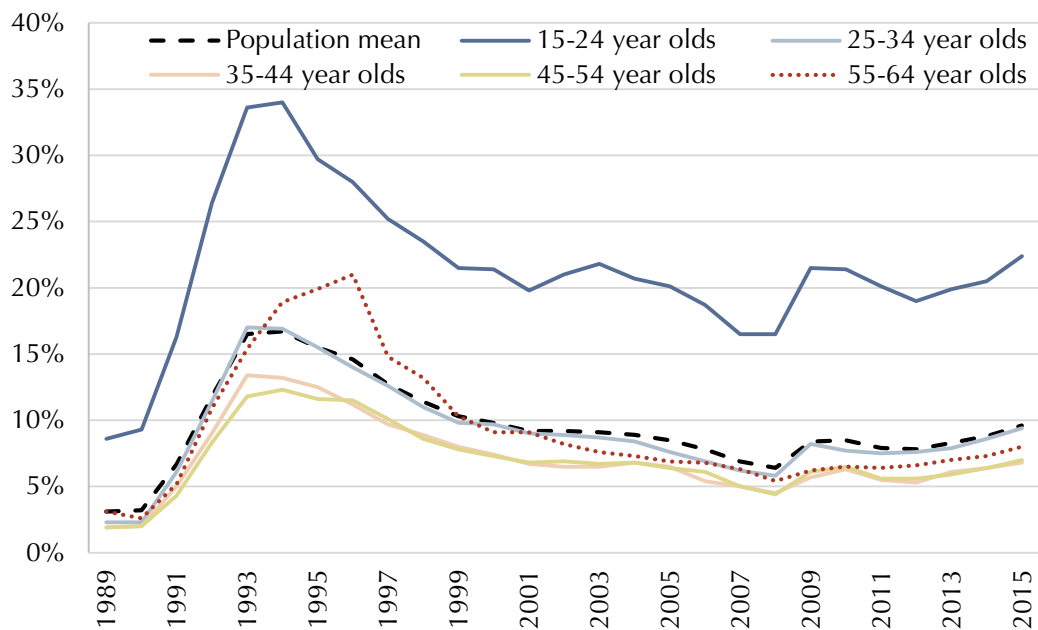
Source: Own calculations, OSF Income Distribution data

**Family stress**

See Section 3 on perceptions.

**The labour market**

Labour market uncertainties have been one of the central factors influencing inequality in Finland. Especially the economic shock of the early 1990s led to large changes in the labour market. Figure 4 shows the trends in unemployment rates for different age groups in Finland.



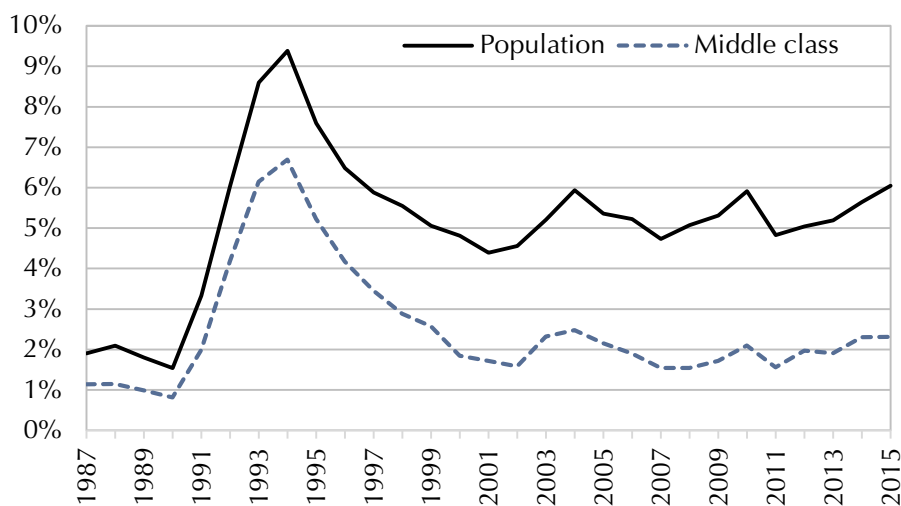
**Figure 4: Unemployment levels in Finland by age groups 1989-2015**

Source: Own calculations, OSF Income Distribution data

The recession of the early 1990s led to a rapid rise in unemployment, which declined slowly afterward. Youth unemployment is clearly the highest. The peak in 1996 among 55–64 year olds is the result of the “unemployment tunnel” (referring to the right to unemployment benefits until retirement after a specific age). Before 1997, this tunnel started at the age of 53; subsequent reforms have increased this age (see OECD 2013, p. 147).

Figure 5 shows unemployment among the middle class and the whole population. Although the trends in the unemployment rate are similar, middle-class unemployment is markedly lower.

Another structural change, which has affected labour market uncertainty, is connected to the growth in part-time work. The proportion of employees that had a part-time contract grew significantly between 1997 and 2015. The share of permanent and fixed-term contracts has been stable, as has been the share of public sector jobs.



**Figure 5: Unemployment rate for the population and the middle class**

Source: Own calculations, OSF Income Distribution data

### Social mobility

Finns enjoy a high and increasing probability of achieving tertiary education. The probability is 30 %-points higher for a son whose father had tertiary education than for a son whose father had only upper-secondary education. In addition, growing up in a well-educated family offers a great advantage in terms of achieving tertiary education; at the same time, there does not seem to be a related penalty attached to growing up in a less-advantaged family (see Causa & Johansson 2010).

Table 1 shows the results on absolute, vertical, upward and downward mobility in different cohorts (Erola 2009). Absolute mobility indicates the percentage of the cohort

in a class position different from that of their parents. Vertical mobility refers to mobility across three hierarchy planes of the EGP class classification.

The results in Table 1 show that the level of absolute mobility for women is higher than for men, and upward mobility has been increasing. For men, there is a slight decrease in upward mobility.

**Table 1: Absolute and vertical mobility of 35–39 year-old Finns by birth cohort**

Source: Erola (2009), p. 313.

Men	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	Total
Absolute mobility	78	77	75	74	74	74	75
Vertical mobility	53	53	54	53	53	55	53
Upward vertical	36	34	35	32	30	30	32
Downward vertical	17	19	19	21	23	25	21

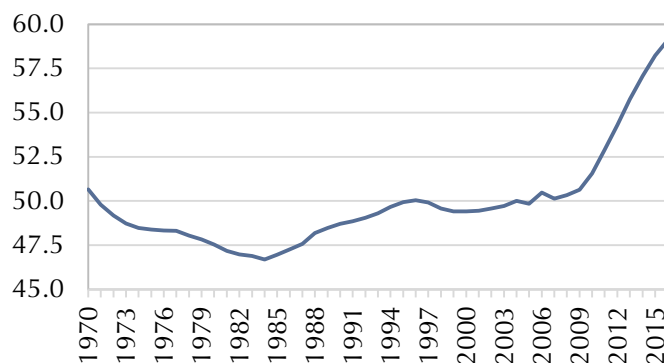
  

Women	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	Total
Absolute mobility	84	86	86	86	85	83	85
Vertical mobility	44	45	46	50	50	52	49
Upward vertical	22	23	25	27	28	29	26
Downward vertical	22	22	20	24	23	24	23

In Finland, students attending secondary education perform above the OECD average on PISA scores, while the influence of socio-economic background is below the OECD average. Likewise, the persistence in tertiary education over generations is relatively low, whereas attainment levels are fairly high. This reflects the importance of public policies that mitigate the effect of family background on educational outcomes.

### Generational issues

Figure 6 shows Finland's dependency ratio, which has been increasing rapidly since the 1980s. The number of pensioners rose from 610,000 in 1980 to over 1 million in 2010, while the dependency ratio rose by more than 10 %-points during the same period. This poses a challenge to the Finnish welfare system. The social benefits include both pensions and institutional care and home care services for the elderly, which constitutes over one-third of all social expenditures (and 10% of GDP).



**Figure 6: Dependency ratio in Finland in 1970–2016**

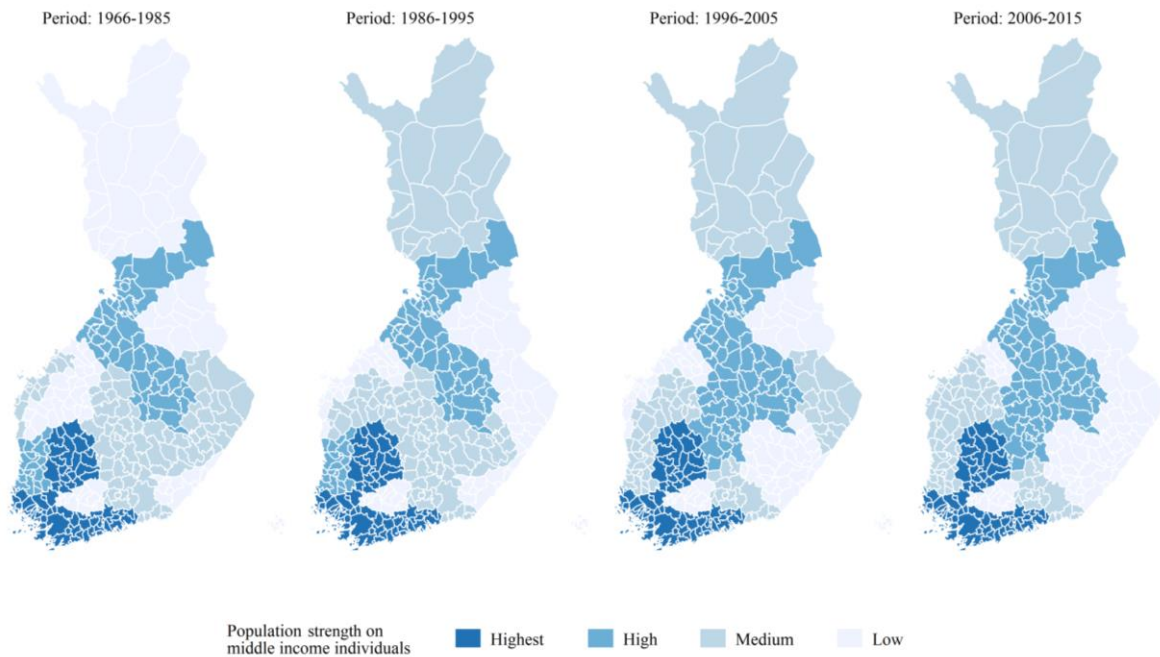
Source: OSF Population Structure. (Total)Dependency ratio =  $((N \text{ of people aged } 0-14 + N \text{ of aged } 65 \text{ and over})/N \text{ of people aged } 15-64)$

### Regional differences

After the Second World War, Finland was still a typical agrarian society. In 1950, agriculture provided a livelihood for 46 percent of the economically active population, while one-third of the population lived in urban areas. Thereafter, the industrial structure changed rapidly. Approximately 1.3 million people moved from working in agriculture and forestry into the industry and service sectors. This was the catalyst of change in the labour market structure: one in every three workers had to change trade. Manufacturing, trade and diverse services generated new jobs. During the large-scale migration, the fertility rate began to decline, which partly contributed to the depopulation of the countryside. In response, the government carried out relief work in the east and north of Finland to prevent labour shortages and mitigate the strain on urban centres. For example, in Lapland, newly founded farms turned out to be far too small and unproductive to be self-sufficient; the farmers became dependent on extra income earned through the state's relief programme, which consisted of road building and other infrastructure-related projects (Kumpulainen 2001).

When the Baby Boomer generation entered the labour market in the 1960s and 1970s, it accelerated even further the migration towards population centres. The migration wave was at its peak at 1974, when approximately six percent of the population changed their municipality of residence. By the mid-1970s, more than half of the Finnish population lived in cities. (Statistics Finland 2007). Urbanization took place within just a few decades, which is exceptionally fast compared to other countries.

The historical context is illustrated in Figure 7, which shows the regional dispersion of middle-income households over the country by four distinct periods from 1966 to 2015. Every period locates the highest concentration of middle-class individuals at the growth centres around major cities. What varies is the distribution outside these areas. For example, a medium concentration of middle-income households shifted from the East to the West coast. This was caused by better employment opportunities in the West.



**Figure 7: Regional dispersion of middle-income households 1966 – 2015**

All data is presented on regional level (NUTS3). Middle class is defined as 60-200% of median disposable household income

### Household composition

Regarding the type of households that are middle class, the only notable difference is the share of single households (without children). They comprise 5%-points more of the middle class share than is the case in the average population.



### 3. Household perceptions

Table 2 presents an analysis of life satisfaction, trust in the government and job preferences of the middle class. The rightmost column of the table shows how middle-class perceptions deviate from the population mean. Although the differences are modest (around 1%), every difference is positive. Life satisfaction and trust in the national parliament show the highest difference. In absolute terms, there is an interesting disconnect between a high satisfaction with life and job security (8 out of 10), but a work-related stress experience of 2.8 out of 5, on average. This is representative of middle-class life observed in other countries as well; a high life satisfaction seems to go hand-in-hand with elevated stress levels.

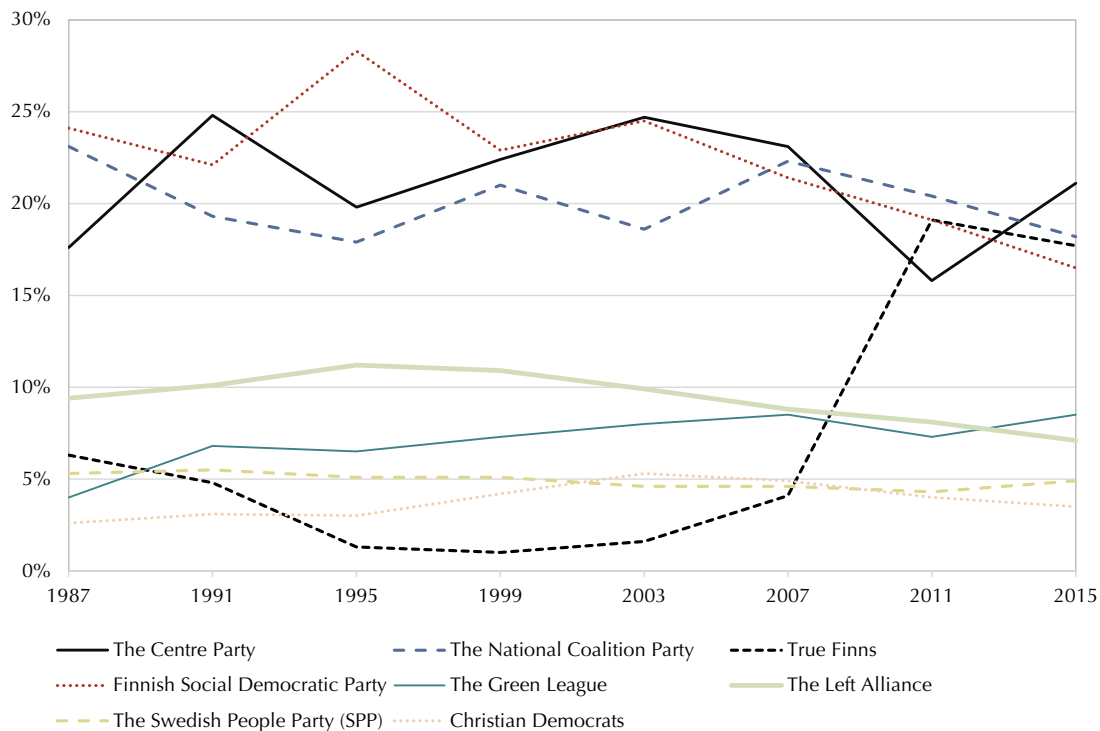
**Table 3: Middle-class self-assessment of perceived position**

Source: European Social Survey, Statistical year 2010.

	Mean	Min	Max	Variance Ratio	% difference from population mean
Trust in government					
Trust in country's parliament	5.4	0	10	0.83	1.5 %
Trust in the European Parliament	5.1	0	10	0.81	0.1 %
Life satisfaction & work					
How satisfied with life as a whole	7.9	0	10	0.64	1.5 %
How happy are you	8.0	0	10	0.64	1.6 %
Current job is secure	3.1	1	4	1	0.4 %
Stress: too tired after work to enjoy things	2.8	1	5	1	0.1 %
Important if choosing job:					
Secure job	4.3	1	5	0.45	0.3 %
High income	3.7	1	5	0.44	0.5 %
Job allowed you to combine work/family	3.8	1	5	0.42	1.1 %

### 4. Political representation

Until 2007, three political parties dominated the Finnish parliament (Figure 8): the Center Party, the National Coalition Party and the Finnish Social Democratic Party, with a combined share of 70% of the vote. However, in 2011 the True Finns won 19% of the vote, gaining 15%-points—raising it from the smallest parliamentary party to become the third-largest party (Statistics Finland 2011).



**Figure 8: Election outcomes 1987-2015**

Source: Statistics Finland

The success of the True Finns can be attributed to strong value-oriented thinking, which is the main factor contributing to the political affiliation choices of individuals in Nordic countries (Oddbjørn 2018). In addition, the sudden rise of True Finn voters can be connected to cleavage voting and preferences for “old politics” (see Lipset & Rokkan 1967).

The True Finns’ political narrative is constructed on the duality of the ‘good civil society’ against ‘bad politics’ (Schedler 1996, p. 297), and a fundamental divide between the elite and ordinary people. Research indicates that the attitude of distrust towards the incumbent office holders and their policies, as well as towards the political institutions, and dissatisfaction with democracy, are quite effectively channelled through the anti-political-establishment vote (Bäck & Kestilä-Kekkonen 2014). Note that in the Finnish context the anti-political-establishment vote does not necessarily oppose in any way the norms and principles of the democratic regime. Instead, those who turn to the Finns’ party seem to critically evaluate the government’s performance and policy outcomes as a whole, including its actors and institutions.

These factors are connected to two major incidents affecting the 2011 elections. First, there was a scandal of electoral funding after the 2007 parliamentary elections, where several candidates did not report their sources of funding in time, which is required by law. It turned out that several well-known politicians of government parties received funding from the interest group *Kehittyvien Maakuntien Suomi* (KMS), which is the lobbying organization of three highly influential businessmen. Three major parties were

especially negatively affected by the scandal: the Centre Party, the National Coalition Party and the Social Democratic Party. Secondly, the economic crisis in 2007-2009 ended a long period of steady economic growth, which also fuelled political distrust of some middle-class voters (Bäck & Kestilä-Kekkonen 2014.).

## 5. Globalisation, technology and migration

We discuss the challenges to the middle class stemming from technological change, migration and globalization. Automation and digitalization might result in a scenario where a substantial share of jobs is “computerized”. Although this shift can already be observed, some caution should be used in evaluating how the technology will affect the actual labour market. While many studies follow an occupation-based approach (see e.g. Frey and Osborne 2013), leading to predictions of entire occupations being at risk of automation, it is more reasonable to assume that single job-tasks are automated by technology. Thus, an easily automated task will be replaced by digitalized systems; referring to this as an “instant” occupational replacement is overstating the risk. In addition, many occupations contain tasks that are hard to automate, and automated systems themselves create new tasks for the labour market. Finland has a reputation as a technological frontrunner, acting as a catalyst for the risks of job automation.

There have been many ideas regarding social policies that would best respond to the challenges of modern labour market structures and the threat of automation. One of the proposed solutions involves issuing a basic income to all citizens, in order to combat the threat of increased automation in the workplace. Finland is one of the leading countries (in terms of using technological advancements and digitalization) giving serious thought to the introduction of a universal basic income. In 2016, the government started a pilot program of a universal basic income. Such a system could offer protection from the transition period of changes in the labour market.

A sudden migration flow could change the balance of supply and demand in the labour market. Such a flow could come from environmental migrants, “who are persons or groups of persons who, predominantly for reasons of sudden or progressive change in the environment that adversely affects their lives or living conditions, are obliged to leave their habitual homes, or choose to do so, either temporarily or permanently, and who move either within their country or abroad” (International Organization for Migration, 2011, p. 33). A sudden increase in workers could put downward pressure on wages, but only in unskilled labour (see e.g. Borjas 1999). One central challenge for Finland is related to the country’s co-operation with other EU-member countries. Finland has been strict on complying with quotas set on migration. The strain on the economic and social welfare system is also dependent on how well other EU members

conform to agreed quotas. This can become challenging when migration flows are unilaterally focused on specific countries.

Globalization poses a challenge for the middle class in the extent to which it leads to the offshoring of jobs. Tuhkuri (2016) suggests that a quarter of Finnish employment could be potentially moved abroad. Pajarinen and Rouvinen (2014) estimate that computerization threatens one-third of Finnish employment. While these problems are hardly unique to Finland, Finland has found a unique way to combat the negative effects of globalization: by implementing workflow re-education programs and upholding a practically free education system.

## 6. Conclusion

All in all, we may conclude the following about the position of the Finnish middle class. First, unemployment among the middle class is at a lower level than in the total population, but with similar trends over time.

Second, Finland has a good socio-economic mobility, higher for women than for men. Overall, the results show higher social inheritance for the youngest cohorts compared to the older cohorts before them. In achieving tertiary education, persistence over generations is relatively low, whereas attainment levels are fairly high.

Third, middle-income households reside around the growth centres. There has been a long-term shift from eastern to western Finland, caused by the availability of employment.

Fourth, the structure of middle-class households deviates from the population mean by having fewer single households. In addition, the share of childless couples is high, and their share has risen over the period studied. Meanwhile, the share of households with two parents and children has diminished over time.

Fifth, middle-class households put a high value on job security, while having worries about work-related stress.

Finally, voting patterns show that electoral preferences have been stable over time, but with a recent rise in right-wing parties. The persistence of these changes in political values remains to be seen.

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# Chapter 5: The Middle Class in France

**Pauline Grégoire-Marchand**

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In France, the question of the middle class emerged essentially at the end of the 18th century, around the time of the French Revolution and the abolition of privileges. In 1870, the founding fathers expected that the Third Republic would lead to the advent of a “new social stratum”—essentially, a class of owners that could live off their own labour.

Starting at the beginning of the 20th century the middle classes are mentioned in the plural. As an increasingly diverse social group, they have become an important subject of study for social sciences. Sociologists, economists and historians propose several definition criteria. François Simiand proposes economic criteria (income and wealth of average level between the highest social class level and the workers and employees level), geographical criteria (urban population of small towns) and professional criteria (high craft, small- and medium merchants and industrialists, part of the liberal professions and the average civil servants).

So, even if members of the middle class have some characteristics in common (the exercise of a technical activity involving practical knowledge of a certain number of rules), the sociologist Maurice Halbwachs underscored (in his Sorbonne lesson devoted to middle classes in 1939) the heterogeneity of the middle classes. This heterogeneity refers not only to material conditions and profession but also to the existence (or lack thereof) of a common consciousness.

As a study subject, the question of the middle classes also became a source of social mobilisation at the beginning of the 20th century. Very early, social groups identifying themselves with the middle classes became mobilised socially to defend their common interests; to address the creation of the income tax, they founded the “Middle classes defence association” in 1908, and to address a tax system deemed too high they founded a “General confederation of middle class union” in 1930.

If these social mobilisations went on after 1945 with the creation of the “Middle Classes National Committee”, presenting France as a middle-class country, most of these stakeholders were still self-employed workers. However, the post-war period marked the rise of new middle classes, symbols of the movements of wage-labour, urbanisation and “moyennisation” of the French society.

From the 1970s crisis to the 2000s, the middle classes occupied a less central place in the public debate. However, they remain an important political concern. In 1976, Valérie Giscard d'Estaing, President of the Republic from 1974 to 1981, considered that the social evolutions in progress would lead to “the expansion of a huge central group” which would “progressively and peacefully integrate the French society as a whole.” Similarly,



their economic situation is tackled at each tax or social protection system reform. But compared to unemployment, poverty and exclusion issues, the middle classes were no longer a subject of major political confrontation or a key subject of expertise.

Nevertheless, since the 2010s the question of the middle classes has become once again an important concern. Less and less stable, precarious, suffering from downward social mobility and “demoyennisation”<sup>1</sup> of the French society, or on the contrary, in expansion, always envied by the popular classes for their stability and climbing the social ladder thanks to education, the middle classes are back at the heart of French society’s concerns.

To analyse the sometimes differentiated evolutions of middle classes, we adopt the relative approach of Courtioux, Erhel and Vaughan-Whitehead (2016 and 2017) to make the following definitions:

- upper middle class: standard of living between 120 and 200% of the median standard of living;
- middle-middle class: standard of living between 80 and 120% of the median standard of living;
- lower middle class: standard of living between 60 and 80% of the median standard of living.

The analysis below builds on recent works by Pierre Courtioux, Christine Erhel and Daniel Vaughan-Whitehead, with updates from the new survey waves ERFS 2012, 2013 and 2014.

## 1. The income perspective

The share of the French middle classes has been quite stable over time, in terms of both population share and income. In 2014, a French household belongs to the middle class if its median standard of living is between € 12,092 and € 40,306 a year. This is almost identical to the levels of 2008. The largest increase in standard of living, 15.7% in cumulative terms, took place between 1996 and 2008.

The main source of income for 90% of the middle class is labour income. Unlike high-income classes, the middle classes receive very little capital, financial, land or securities income (4.8% from other income, compared to 18.9% in the upper classes).

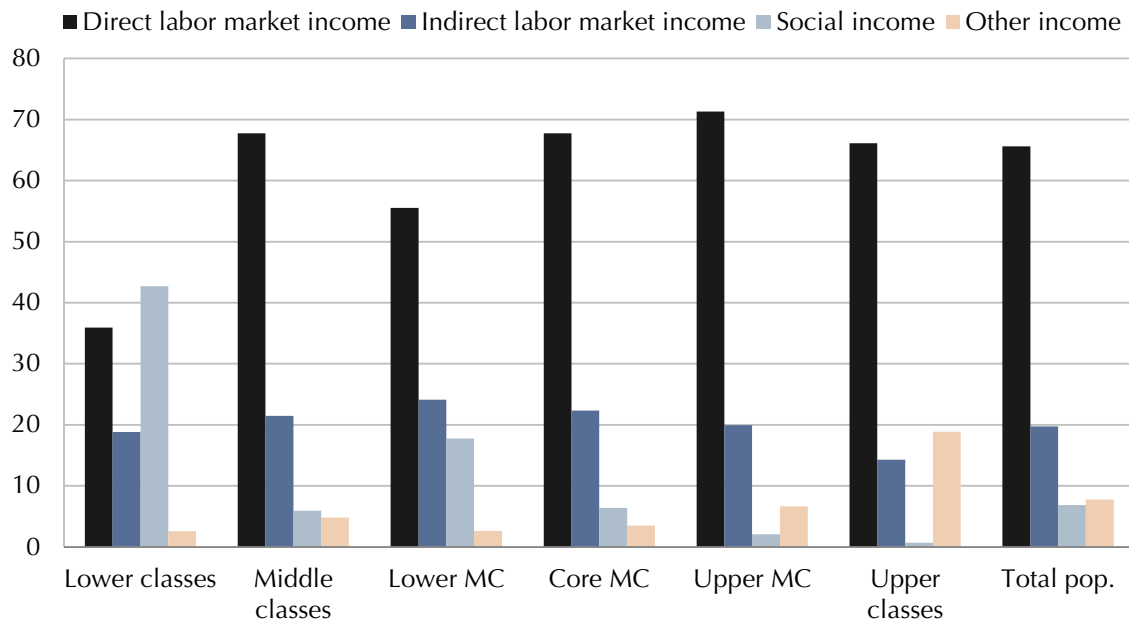
Beyond these global trends, there is, however, a high degree of diversity among subdivisions within the middle class. Income inequality increased only a little between 1996 and 2014, but the middle classes are the income group with the highest income gap between the richest and poorest households. According to some specific indicators,

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<sup>1</sup> “moyen” is French for middle or average. Moyennisation is the process of achieving a larger middle class and less extremes. Démoyennisation (“de-averaging”) is the opposite movement, i.e., an increase in extremes.

income inequality within the middle class is even higher than in high-income classes: its D9/D1 ratio is 2.29, against 2.12 for high-income classes.

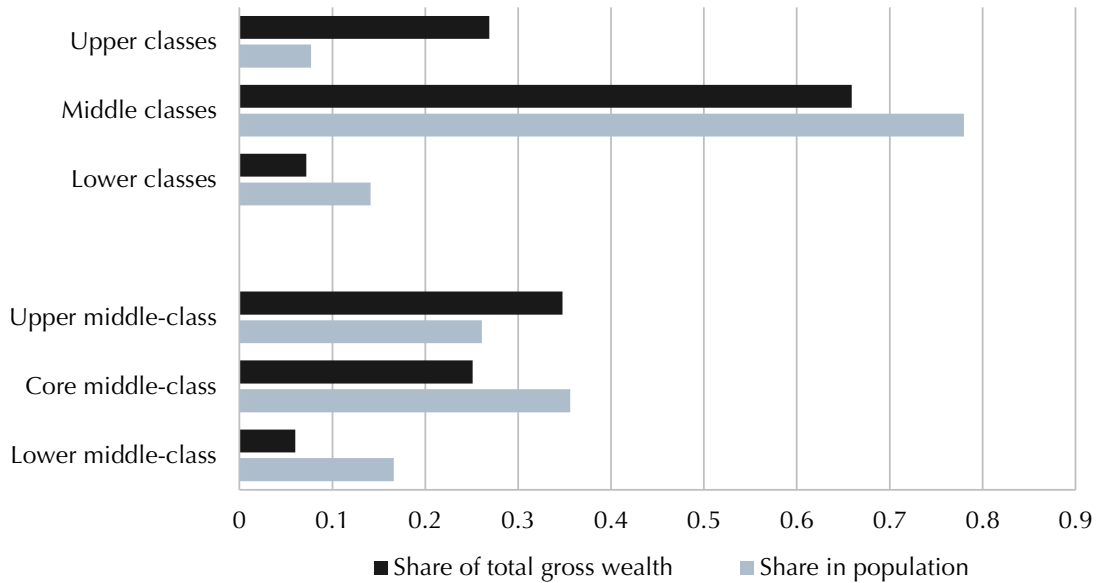
The French socioeconomic system greatly reduces income inequalities before and after redistribution. Figure 1 shows how the low-income class obtains on average 18% of their income from social benefits—but it is not much lower for the other income classes (22% for the middle class and still 14% for the highest incomes).



**Figure 1: Source of income for difference income groups in 2014**

Direct labour market income includes wages, agricultural, industrial, commercial and non-commercial income. Indirect income from the labour market consists of unemployment benefits, early retirement benefits and retirement pensions (excluding the minimum old-age benefit). Social income includes all social benefits. Other income includes financial, land, securities and foreign income of the household. Source: Computations by France Stratégie, based on data from the fiscal and social income study (ERFS) of the French national statistics office (Insee, the National Institute of Statistics and Economic Studies), 1996-2014.

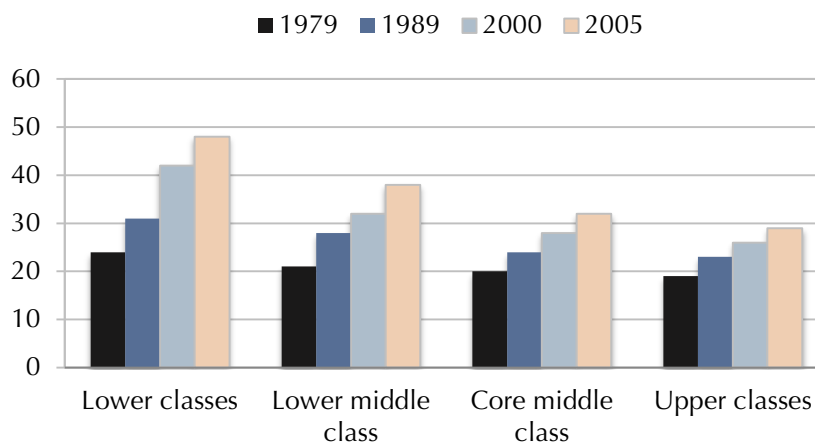
The middle classes hold less wealth than indicated by their population share in the French population (66% of the total gross wealth for 78% of the population), but the gap is becoming smaller (wealth growth of 11% between 2010 and 2014 compared to 4% for the French population as a whole). The upper middle classes have a total wealth greater than their share in the French population (25% and 36% respectively); see Figure 2. This illustrates the heterogeneity of the middle classes.



**Figure 2: Share of gross wealth by income class in 2015**

Based on households living in France, including DOM (overseas departments, excluding Mayotte) Source: France Stratégie, INSEE, Wealth survey 2014-15.

Finally, regarding the income perspective, Régis Bigot talks about “middle classes under pressure” (Crédoc, *Consommation et modes de vie*, 2008), with increasingly constrained expenditures, especially for the lower middle classes. Figure 3 shows the percentage of households that experience constrained expenditures in their budget. Between 1979 and 2005, the part of constrained expenditures in household budgets increased by 17 %-points for the lower middle classes.



**Figure 3: Constrained expenditures by income category**

Source: Mareuge and Ruiz (2008), Family budget survey, INSEE. Ordinary households living in France, including DOM (overseas departments, excluding Mayotte).

After deducting 38% of constrained expenditure (housing, water, electricity) and 42% of essential expenses (food, transport, health, education), only 20% remains for discretionary spending such as leisure or clothing. This small share of the budget devoted to the remaining expenditure is much closer to the situation of the 10% of the poorest households than that of the richest households, with respectively 13% and 35% of the budget not allocated to constrained or unavoidable expenses.

Nearly 50% of middle-class households expect a reduction in their purchasing power in the following year (compared with 34% of low-income classes). This could be explained by the smaller share of discretionary spending, which is the most salient category and is comprised of 'aspirational goods' or status-enhancing consumption.

## 2. Non-income-related perspectives

### The affordability of housing

A 2010 survey from Fondapol (a French think-tank) finds that the feeling of belonging to the middle classes is strongly correlated with homeownership; see Fondapol (2010). Our own analysis of the data is shown in Table 1 below. In 2014, the middle classes consist mostly of owners (62% against 36% of tenants) and are rarely tenants of social housing (13%).

**Table 1: Residential status**

Source: France Stratégie, based on data from the fiscal and social income study (ERFS) of the French national statistics office (Insee, the National Institute of Statistics and Economic Studies), 1996-2014.

	Lower classes	Middle classes	Lower middle class	Core middle class	Upper middle class	Upper classes	Total
Owner	22	62	37	63	79	86	57
Tenant	76	36	60	36	20	12	41
Tenant in public housing	41	13	27	13	3	3	17

In the case of housing, there is also a high degree of diversity among the middle classes: from lower- to upper middle class the ownership percentage varies from 37% to 79%. For the lower middle class, Goux and Maurin (2012) suggest that the increasing difficulties of housing affordability of lower middle classes fuel feelings of uncertainty and downward social mobility.

### Family stress

Employment issues and working conditions seem to be a major key for understanding the characteristics, evolutions and worries of the French middle classes. Their incomes essentially come from the labour market and the intensity of the labour activity within the couple of a household has a significant impact on that household's ability to belong to the middle classes and to remain there despite changes on the labour market.

### The Labour Market

Income varies greatly along socio-professional categories. Intermediary occupations, employees and skilled workers have more than an 80% chance of belonging to the middle classes. The liberal professions are more likely to belong to high-income classes than to the middle classes. Farmers, tradesmen and other inactive workers are more often than the rest of the population to be members of the low-income class.

There is a certain duality of working conditions among the middle classes. While the desire to belong to the middle classes can be partly based on an aspiration for greater stability of employment, the working conditions of the middle classes have become more precarious and more similar to those of the lower income classes. 25% of the lower middle class works part-time (compare with 7% of the whole population). They have fewer fixed-term contracts, however (10% compared with 18% in the general population); see Table 2.

**Table 2: Employment type of middle-income households**

Source: France Stratégie, based on data from the fiscal and social income study (ERFS) of the French national statistics office (Insee, the National Institute of Statistics and Economic Studies), 1996-2014.

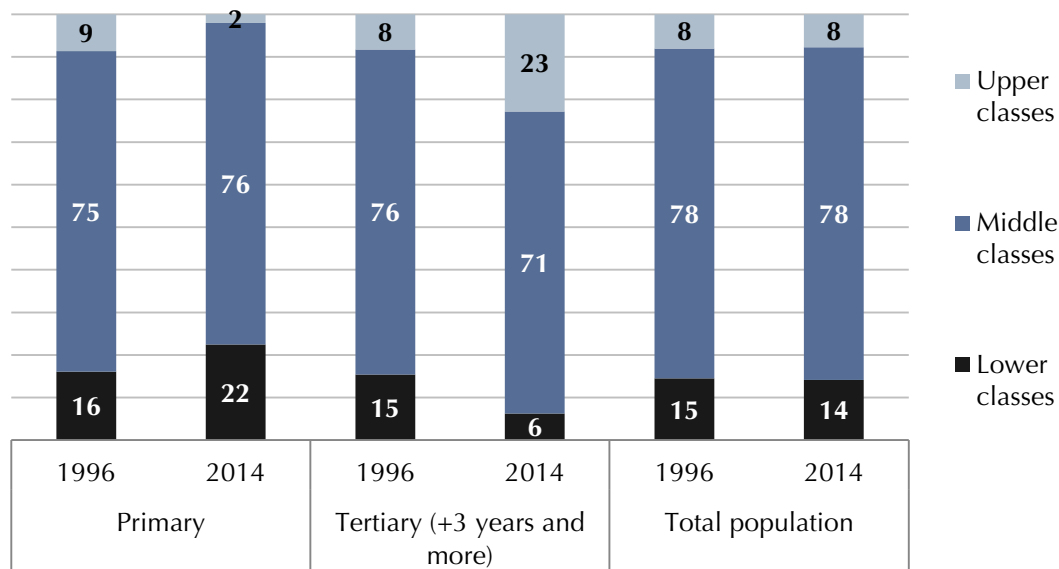
	%	Lower classes	Middle classes	Lower MC	Core MC	Upper MC	Upper classes	Total pop.
Type of employment contract	Fixed-term contract	13	7	10	7	5	3	7
	Temporary agency work	5	2	4	2	1	0	2
Working time	Part-time	32	18	26	18	14	14	19
	Would like to work more	30	19	28	20	12	7	19

### Social Mobility

The qualification level has an increasingly important impact on the probability of belonging to the middle classes. The percentage of middle-class persons with a tertiary degree is 84%, up from 77% in 1996. For the higher-income class, this effect is even more pronounced: 23% have a higher tertiary degree (Bac+3 and higher) against 8% in 1996.

Figure 4 looks at the distribution of classes within categories of educational attainment. For simplicity, we show only Primary and Tertiary education. In 2014, 71% of the graduates of tertiary education belong to the middle classes, down from 75% in 1996.

The educational level does not fully compensate for the importance of social origin. On the contrary, social reproduction seems to be strengthening. Several sociologists (Valat, Vallet, Peugny, 2016) document a fall in the returns to schooling and an increase of inequalities related to social origin for obtaining the diploma after leaving the school system. This could be due to the relations between the real estate market and school quality: The best schools are more likely to be located in cities and neighbourhoods with the highest real estate prices.



**Figure 4 : Income class and education level in 1996 and 2014**

Source: France Stratégie, based on data from the fiscal and social income study (ERFS) of the French national statistics office (Insee, the National Institute of Statistics and Economic Studies), 1996-2014.

Children whose parents belong to socio-professional category of intermediary occupations, employees but also workers, are more likely in 2014 than in 1996 to belong to the middle classes. On the other hand, children of self-employed people (lawyers, doctors and so forth) and managers are more likely to belong to high-income classes in 2014 than in 1996.

Analysing the social mobility of the middle classes in France remains complex and depends on the exact criteria used to evaluate mobility. The sociologist Louis Chauvel, through an approach in terms of living standards and income, finds a destabilisation, decline and a de-averaging (“démoyennisation”) of the French society (2006, 2016). On the other hand, economists such as Dominique Goux and Eric Maurin, using an approach in terms of occupation, socio-professional category and employment situation, find that the French middle classes have experienced a stabilisation and an

overall improvement in their living conditions, despite the heterogeneity and difficulties of the lowest incomes. Using an income approach, Régis Bigot rejects the finding of a de-averaging of the French society. He does find the perception of decline due to the increase in constrained expenditure, the downward social mobility of young people and employment insecurity.

### **Generational issues**

There has been a relative aging of the middle classes since 1996 and, above all, an increase in poverty among the youngest. Thus, 18-29 year-olds have a higher probability of belonging to the middle classes in 2014 than their counterparts did in 1996 (75% vs. 72%), but they are much less likely to belong to the upper classes (9% in 1996 and 2% in 2014) and much more likely to belong to the low-income class (19% in 1996 and 23% in 2014). People who are 65 years old and over are much more likely to belong to the middle classes in 2014 than in 1996.

### **Regional differences**

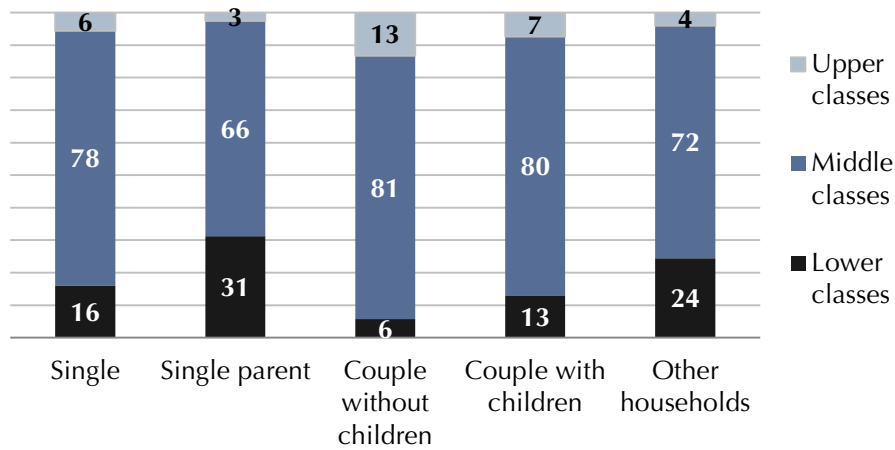
The middle classes are historically associated with medium-sized towns—and the probability of belonging to middle classes is still stronger for inhabitants of rural areas and small towns. In absolute numbers, most middle-class households live in large cities.

However, in large cities such as Paris and its suburbs, there is also greater social diversity and an overrepresentation of the poorest and richest households, compared to the rest of French territory. Thus, households have a 70% chance of belonging to the middle classes in Paris and its suburbs, compared with 81% in towns with less than 200,000 inhabitants.

### **Household composition**

The vast majority of middle-class households are couples with children, and this is true for the whole of the middle classes—lower, core and upper middle class; see Figure 5. A dual-earning couple has the highest probability of belonging to the middle classes, whether or not the couple has children. Couples with children whose two members are employed have a much higher probability of belonging to the middle classes. Due to greater labour market participation, dual-income households with children have higher incomes and thus reach the various thresholds of standard of living necessary to belong to the middle classes.

Singles also have a high probability of belonging to the middle classes, but their risk of belonging to the lowest income groups is higher than for the general population (16% vs. 14%). Poverty risks are especially high for single-parent families, with 31% of these households belonging to low-income groups.



**Figure 5: Household composition per income class in 2014**

Source: France Stratégie, based on data from the fiscal and social income study (ERFS) of the French national statistics office (Insee, the National Institute of Statistics and Economic Studies), 1996-2014.

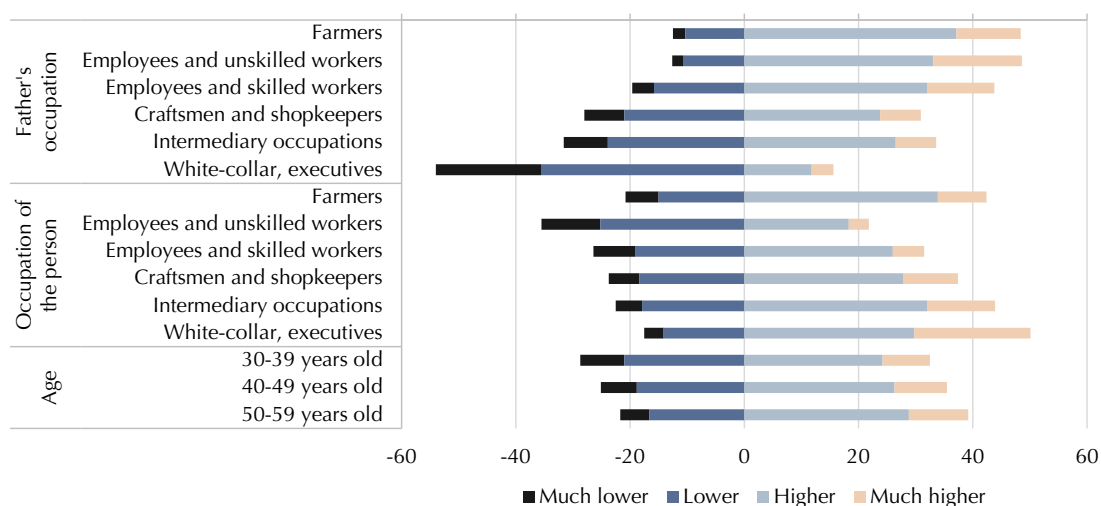
### 3. Perceptions

In terms of perception, a large majority of French households consider that they belong to the middle classes. French people tend to overestimate the share of households belonging to the lower income classes (20% to 25% in self-declaration versus 14% in 2014, according to our income class definition). Yet, identification with the middle classes is increasing, despite the decline of social class identification. Nearly 80% of French households thus consider that they belong to the middle classes. This proportion is very close to the proportion we obtain when we define the middle classes in terms of income.

However, French household perceptions about social mobility are much more negative, as can be seen in a study carried out by Insee (the National Institute of Statistics and Economic Studies) in July 2017. The study found that—despite a rise in skilled employment and an upward social mobility higher than the top-down social mobility—a quarter of French people declare that they are facing a situation of downward social mobility compared to their father. This feeling of downward mobility affects all social groups, especially children whose parents had a typical middle-class occupation, see Figure 6.

From those whose father had attained an intermediary occupation, 32% regard their situation low, or lower than that of their father. For those with a father with a white-collar job, this is the case for 54% of people. In total, 23% of individuals in intermediary occupations consider that their status or occupation is socially lower or much lower than their father's occupation.





**Figure 6: Perceived social mobility**

Perception of upward and downward social mobility according to the profession of the person and the profession of the father. Source: INSEE, FQP survey 2014-2015. Insee Première no. 1659, July 2017. Executives means executives, senior intellectual professions and managers with ten or more employees.

The perception of downward mobility is particularly felt among young people: nearly a third of 30-39 year-olds think that their status or profession is lower or much lower than their father's occupation. On top of that, this feeling of downward social mobility is also observed among individuals who do not face downward social mobility. More than 50% of people who think that they may lose social status do not experience it. These individuals either are experiencing upward social mobility (8%) or status mobility (20%), or are occupying the same socio-professional category as their father (30%).

The feeling of downward mobility is also strong in socio-professional categories, which represent the main share of French middle classes: 34% of white-collars, 24% of intermediary occupations and 27% of shopkeepers occupy the same socio-economic categories of their father and think nevertheless that they are in a situation of downward mobility. According to Insee, working conditions, particularly the risk of unemployment, partly explain these feelings. Between two occupations experiencing the same level of downward mobility, this feeling is less pronounced when the risk of unemployment is lower and wages are higher.

#### 4. Political representation

Most of the time, the middle classes have been central in the French political debate. The Third Republic founding fathers celebrated the social group, the president of the Republic (1974-1981) Valéry Giscard d'Estaing called for the strengthening of a "central

group” and at each economic crisis, the majority of political leaders worry about a potential weakening of the middle classes.

The voting of the middle classes has led to decisive political changes in French history. According to political scientists Georges Lavau, Gérard Grunberg and Nonna Mayer, the failure of the Popular Front in 1938 could be explained in part by its inability to obtain the middle-classes’ support. In 1981, they contributed greatly to the election of a President from the Socialist Party, François Mitterrand. In that election, the party was able to rally the support of many middle-level white-collar workers, technicians, and clerks and to count on the already older support of the majority of middle-class civil servants.

Despite this “class-issue” (Lavau, Grunberg, Mayer), decisive in order to obtain a political majority, the middle class is not represented as such in the political realm. They are too fragmented to constitute a joint representation (i.e., the votes of the middle classes correlate with different socio-professional categories and on the changing composition of the French society). In the 1970s and 1980s, employees, intermediary occupations and middle managers gradually moved closer to the left, while small shopkeepers and craftsmen preferred conservative parties.

Despite the retreat of the workers / non-workers division, two other divisions remain important in the analysis of electoral behaviour: the division between employees / self-employed workers and the division between public and private sectors. Intermediary occupations and employees from the public sector or large formerly public firms vote mainly for left-wing parties; self-employed professionals, shopkeepers, craftsmen, farmers and entrepreneurs tend to vote for right-wing parties.

Far-right-wing parties have historically had little success among middle-class voters. But they have significantly progressed in recent years, especially among the most weakened classes. Support for the National Front has progressed among every social category, but they have been particularly successful among workers and employees (whereas it is still difficult for them to convince middle- and upper middle classes). Carrying out an electoral analysis thus requires that a distinction be made between income levels and socio-professional categories comprising the middle classes. Moreover, other variables are needed to capture the changes of the French middle-class electoral behaviour: educational level, perceptions of job security and feelings about their economic and social situation.

The electoral year 2017 led to a major political change in France, with Emmanuel Macron's victory in the presidential elections and his party obtaining an absolute majority in the legislative elections. His party, *En Marche*, which did not exist one year earlier, drew a large share from votes that traditionally went to mainstream parties – the Socialist Party on the left-wing and the Republicans (formerly the UMP) on the right-wing. Regarding the National Front, workers constitute the socio-professional category which voted most for Marine Le Pen, together with 19% of intermediary occupations

and 32% of employees. Lower incomes voted proportionally more for the National Front.

In addition to these analyses by socio-professional category and income, electoral behaviour varies greatly according to educational level and the perceptions of individuals regarding their present and future socio-economic situation. People who declare that they face either downward social mobility or economic difficulties, or people who have a low level of education, are much more likely to vote for Marine Le Pen. The electoral behaviour of the middle classes in 2017 seems to rely particularly on these issues.

## 5. Conclusions

The French middle classes are relatively stable in terms of numbers and inequalities, and even experienced a small increase in their standard of living between 1996 and 2014, despite the declines or a certain slowdown since the beginning of the 2010s.

Employment issues and working conditions seem to be a major key in order to understand the characteristics, evolutions and worries of the French middle classes. Their incomes essentially come from the labour market, and their participation has a significant impact on households' ability to belong to the middle classes and to remain there, despite changes on the labour market itself.

The outlook of many middle-class households is more negative than may be warranted by the numbers. Most of this is driven by the risk of unemployment and the declining share of income that can be spent on aspirational goods and leisure.

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# Chapter 6: The Middle Class in Germany

**Christian Arndt**

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In Germany, virtually every person and every political faction believe a sound and stable middle class to be the pillar of social stability. It is deemed an important source of government funding, the origin of innovation and necessary for social justice. Interestingly, the German word for middle class (“Mittelschicht”, which literally means middle stratum) evokes the notion of a layered society and thereby something that might be more permeable than the notion of “class”, which rather suggests a milieu into which you are born.

Several analyses issued by researchers, journalists and editors from different scientific disciplines have vetted the middle class in Germany—with quite contradictory results. While some studies have purported the weakness, shrinking or even disappearance of the middle class, others have underscored its stability. Interestingly, one of the main reasons for the ambiguity of findings is the dynamism behind the development of inequality over the last two decades in Germany, and the fact that incomes are unevenly distributed also within the middle-income class. This chapter seeks therefore to show the ups and downs, explain the most important reasons respectively and have a look at the state of the middle class beyond financial figures.

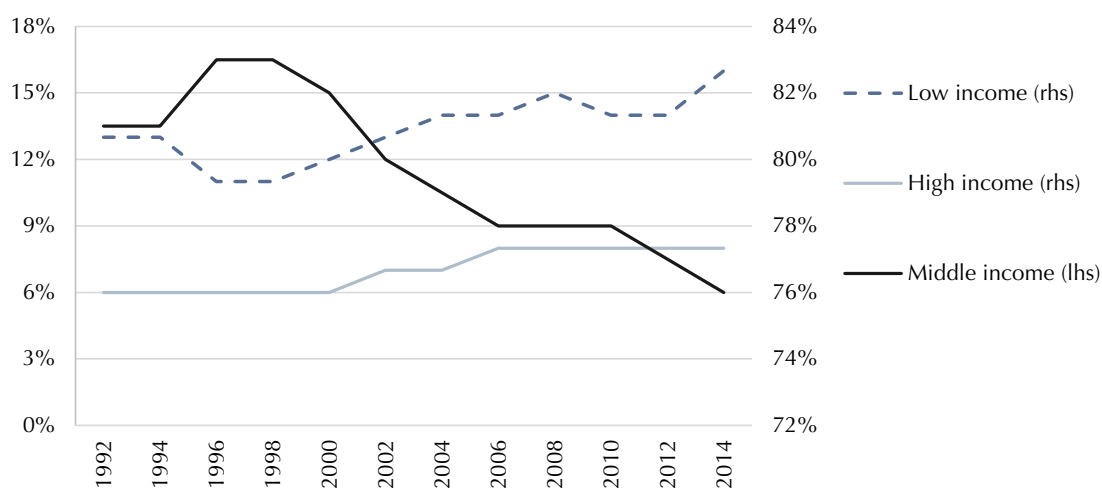
The figures in Table 1 of the overview chapter show that Germany is the largest country in our sample by population and by economic size. Compared to the EU average, this founding member is comparably well-off and has the lowest unemployment rate in our sample of countries. Yet, this has not always been the case: In 2005, Germany was cast into economic paralysis: the unemployment rate was around 13%. By starting in 2007, Figure 5 misses that peak level of unemployment. Since 2005, four million jobs have been added to the economy (German Ministry of Labour and Social Affairs, 2017, p. XI).

So, how well has the middle-income class fared in the last decades? What we know about the middle class in Germany is buttressed by relatively comprehensive information, since household data in Germany are comparably exhaustive and of good quality. There are different data sources that are well suited for analysing the middle class. The best and most prominent source is the German Socio-economic Panel study (GSOEP), featuring over 10,000 households and yearly information on every income type of any household member without top-censoring income (as e.g. in EU-SILC). Further interesting information on the financial situation of the middle class comes from information on household wealth every five years (e.g. 2007 and 2012).

This chapter uses earlier work in Arndt (2012) and Arndt (2015) (both of which are in German) to explore in detail how the middle-income class is doing in Germany. After summarising relevant developments over the last decades by commenting on the results in the overview chapter, I add insights from recent data and different non-financial perspectives on the middle class in Germany.

## 1. The income perspective

Figure 1 shows the evolution of the size of the middle-income class in Germany between 1992 and 2014, and the share of low- and high-incomes. High incomes are those with more than double the median net equivalent income (€ 1,640 per month in 2011).



**Figure 1: Population share of income classes in Germany 1991-2014**

Income classes are defined as equivalised household income, relative to the median. The black line has the income share of the middle-income class, between 60% and 200% of the median. The blue line has the share below 60% of the median (right-hand axis). The grey line has the share above 200% of the median (right-hand axis). Source: German Ministry of Labour and Social Affairs (2017), GSOEP v32.

From Figure 1 we observe that middle-income share has shrunk since the early 2000s. Based on equivalised net household income, about 76% of the total population in 2014 belonged to the middle-income class. In the 25 years since reunification in 1990, that share has declined by 5 %-points. This loss has gone in equal parts to the “rich” and to the “poor”: 2 %-points of the reduction can be accrued to the growth of the share of the well-off, and 3 %-points to those with a higher at-risk-of-poverty ratio.

A closer look at the development reveals four different time spells:

- 1991-1999: a slight “widening” of the middle-income class in the years after reunification

- 1998-2006: a strong “contraction” of the middle-income class of about 5 %-points in eight years (as large as the decline over the total period)
- 2007-2011: a period of “stability”
- 2011-2014: a slight contraction of the middle-income class

Recent research in preparation for the Fifth German Poverty and Wealth report has found different reasons for these movements of income inequality in Germany (see e.g. IAW 2015a). The main reason for the hefty contraction of the middle class between 1998 and 2006 was the rise of unemployment, which climaxed in 2005. Diverging wages on the labour market, and a tax reform in the beginning of the millennium exacerbated income inequality during that time.

The so-called “tax reform 2000”, which took effect in 2001, brought with it among other things a redesign of the shape of the progressive tax rate. The reform was intended to benefit all income levels, although micro simulations show that benefits for higher incomes have outpaced those for lower incomes. For low-income households, the reform increased the cut-off point for tax exemption (so that more of the lower incomes were tax-free) and reduced the lowest marginal tax rate that applies to the incomes just passing this cut-off (from 25.9% to 15%). Higher incomes also profit from these changes of course, and with a reduction in the top rate, from 53% to 42%, the tax reform increased inequality in terms of net incomes; see, for example, Biewen and Juhasz (2012). The reform led, moreover, to a slight squeeze of the middle-income class.

The period of stability after 2006 was initiated by the implementation of the final stage of the so-called “Hartz” labour market reform in 2005; see e.g. Engbom et al. (2015). The reforms reduced social benefits and increased incentives for the unemployed to re-enter the labour market. It was successful in the sense that unemployment declined and long-term unemployment almost halved, from 1.7 million in 2007 to below 1 million in 2016. However, the reform reduced the “size and duration of unemployment benefits considerably and made them conditional on tighter rules for job search and acceptance” (Engbom et al., 2015). Both effects (the decline of unemployment and lower income levels for the unemployed) apparently set off their opposite impacts on income inequality. Interestingly, the last stage of the reforms has often been blamed by common wisdom as the culprit behind the increasing inequality that we observed until 2005. Yet, as can be easily seen in this case, the cause cannot come after the effect.

Demographic developments are another source of the increased inequality in Germany. At a population growth of 2.6% between 1991 and 2008, the number of one-person households increased by 33%. The number of households with at least three persons decreased; see Peichl et al. (2011). For the situation of a household with children, the decrease in household size has a positive effect on equivalised income,



since the total income is shared among fewer members. However, if the decline in size comes from a reduction in income-earning members, the effect on equivalised income is negative, as fewer members contribute. For Germany, it is the rise in single-person households that is the driving factor behind increased inequality in market incomes; see Peichl et al. (2012).

Redistribution bolsters the middle-income class in Germany. Even though German media tend to blame the tax system for squeezing the middle class—and notwithstanding our finding about the effect of the tax reform from 2000—simulations show that redistributive policies such as progressive taxes, social benefits and transfers soften the inequality in net incomes in Germany. This redistribution also benefits the middle class, which would be far smaller without redistribution. Table 1 gives the effect of redistribution on population shares of the different income groups.

From Table 1 we can deduce that the share of people that earn between 60% and 200% of market income (i.e. before taxes and transfers) is just 48%, which is 30 %-points lower than the size of the middle class with regard to net equivalised income (78%).

**Table 1: Impact of redistribution on the middle-income class 2011-2013**

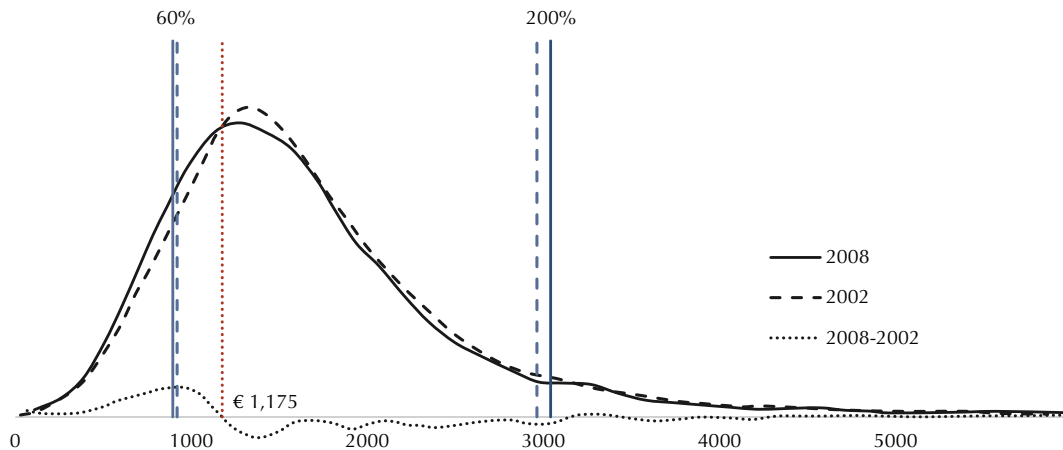
Source: Own calculations with data from Bosch and Kalina (2015) that used GSOEP v30.

Income group (relative to median income)	Group size (pre- redistribution)	Group size (post- redistribution)	Group size difference (percentage points)	Effect of redistribution (relative change of group size)
Below 60%	17.2 %	8.0 %	-9.2 pp	- 53.5%
60% – 80%	24.0 %	26.5 %	2.5 pp	+ 10.4%
80% – 120%	16.6 %	33.6 %	17.0 pp	+ 102.4%
120% – 200%	7.4 %	17.7 %	10.3 pp	+ 139.2%
Over 200%	34.7 %	14.2 %	-20.5 pp	- 59.1%

Moreover, Table 1 also shows that redistribution is centred at the median net income level. Households that have more than the median net income are net contributors. Households below median net income are net recipients. This means that any broad middle-income concept will comprise net transfer payers as well as net transfer recipients, potentially causing the former to feel somewhat squeezed. Thus, the German tax system may well “squeeze” households on the upper levels of the middle-income class, but it does not squeeze its population share. Even more, redistribution has a stronger inequality reducing impact in Germany than in other countries (Arndt 2012, p. 56).

Analyses of the population-share of the middle-income class fail to tell the full story of what happens on different income levels within the middle class. Insight may come from so-called empirical density functions that show the frequency of incomes (more

specifically, how “densely” different sections of income are populated). These functions show that incomes have indeed evolved quite differently within the middle class in Germany. Figure 2 compares income densities of 2002 (solid black line) with those of 2008 (dashed grey line). The curves indicate the density of incomes at different levels. The higher the line, the more people dispense of the respective net equivalent income. The dotted line gives the differences of densities between 2002 and 2008. Apparently, net equivalent incomes have become denser in the area below €1,175, which is still within the 60% cut-off point of our definition of the middle class. That means that more people have moved towards the lower end of the middle-income class. The area around the median has thinned out. Hence, inequality within the middle-income class has increased.



**Figure 2: The shape of the income distribution in Germany 2002-2008**

Kernel density estimations of the income distribution in terms of monthly equivalised income, in 2005 prices. Solid line for 2002, dashed line for 2008, dotted line for the difference. Source: Arndt (2012).

Figure 2 shows why assessments of the middle-income class also hinge, at least in Germany, on the choice of cut-off points (or the “width” of the middle class). The narrow middle-income definitions with 75% and 200% that were chosen in the overview chapter reflect developments around the median income, where density has diminished in Germany. Those measures consequently lead to higher loss-figures (see Figure 2 in the overview chapter) than do wider concepts.

The background to the development of market incomes in Germany, and indeed part of the country’s economic success, is an implicit employer-employee consensus backing the containment of wage growth in exchange for job certainty, a process that started in the middle of the 1990s (supposedly as a reaction to fears of outsourcing jobs to the recently opened labour markets of neighbouring countries in the East). However, this informal consensus resulted in stagnant real household incomes, also for the middle-income class: real net median equivalent income in the middle class (at

€1,690 in 2012 prices) did not increase between 2002 and 2012. Stagnating real wages were accompanied by a declining importance of regional wage-bargaining schemes, which tend to buttress wage levels. Whereas in 2000 roughly 70% of all employees were covered by a regional bargaining scheme, this figure fell to 59% in 2015. Regional bargaining schemes apply mainly to large and median firms; one way to circumvent them was to outsource certain tasks to mainly smaller firms (e.g. in the services sector), for which those bargaining schemes were not binding.

Recently, wages have started to grow again. In 2015, nominal wages increased by 2.7%, leading to more or less stable disposable household incomes (see Figure 3 in the overview chapter). The introduction in 2015 of a minimum wage in Germany contributed to wage growth on the lower income range (e.g., by on average 4.1% for untrained workers).

A further German characteristic is the strength of the manufacturing sector. This historical bulwark of the middle-income class (actually, a conveyor belt for workers earning upper middle-class wages) may well have led lately to an increase of wage inequality. Whereas in 2015 nominal wages grew by 20% in manufacturing industries, where wages tend to be relatively high already, nominal wages increased by only 15% in services (Fifth German Poverty and Wealth Report, p. XII), where wages are lower on average.

In Germany, the middle-income class represents about 74% of total net income, which is close to its population share. Despite wage moderation, incomes in the middle class have not fared badly in comparison to the other income levels. Since 2002, this income share of the middle class diminished by 4 %-points, which is equal to the reduction in population share.

Finally, with regard to the wealth distribution, the middle-income class owns roughly 68% of all net household wealth in Germany. Seemingly unharmed by the financial crisis, this figure has stayed almost unchanged between 2002 and 2012. Household wealth is more concentrated than incomes: The 10% wealthiest people in Germany dispose of about 56% of all positive net household wealth. Based on households' self-appraisal in the GSOEP survey<sup>1</sup>, net wealth did not increase between 2002 and 2012, neither in general nor for the middle-income class. The positive message from this result may be that middle-income class wealth has not plummeted in the financial crisis. Within the middle-income class, the Gini coefficient of individual net wealth is 0.74 – at a similar level as for the whole of Germany.

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<sup>1</sup> Household data on wealth are comparably good for Germany. Yet results regarding the development of wealth differ starkly between micro data (from surveys) and macro data (from National Accounting). Whereas micro data show a decline of net wealth in the last decade in Germany, macro data show growing aggregated wealth. Reasons for this divergence are not yet clear. The ambiguity of the results, however, shows the difficulty of wealth appraisals, especially real estate.

## 2. Non-income-related perspectives

### **The affordability of housing**

56.6% of households in the middle-income class own a house (i.e. at least one house), a figure only slightly higher than in the total population. Due to low interest rates, however, this number climbed slightly between 2007 and 2012. Moreover, real estate is the most important asset in the wealth portfolio of middle class households in Germany: almost three quarter of their wealth is in real estate (predominantly the self-owned house). At the same time, over 40% of households in the middle class are tenants and depend on the rental price development.

House prices in several cities have soared, which has had an impact on rents. Net rental prices surged—as much as 19% in Bavaria but only 3% in Saxony —between 2005 and 2016. Rental rate surges are much higher in cities than may be suggested by these average figures for German states. Acknowledging the problems that high rents pose for households, the German government has tried to alleviate this by reforming the tenancy law (labelled as a “rental price brake”).

### **Family stress**

Stress on individuals and families may appear in different ways. Stress in the middle class may be caused by the need to work (e.g., as double earner households), and might be made manifest in anxiety or even mental illnesses.

In Germany, 58% of mothers are in the workforce, whereas this number is 84% for fathers. Labour participation rates of mothers differ with regard to the age of the children: they are lowest (around 32%) for women whose youngest child is not older than three years. But labour participation is almost double as high if the youngest child is between three and five years old (see Datenreport, 2017). In general, many women take a break from work when starting a family and return to the labour market only when the children are older. The labour participation of mothers with young children is higher in the East than in the West.

For households with children and where both parents work, 74% choose the “traditional” way of earning: the father works full-time and the mother part-time. In 21% of cases, both work in the workforce. In only 5% of these households is the father the one who works part-time.

Labour participation is closely linked to the availability of childcare. The extension of early childcare is an important topic in debates in Germany. In 2007, it was decided that, until 2013, there should be childcare available for 35% of all children under three years of age. Since 2013, children are even legally entitled to public childcare. Currently, around 33% of all children under three years use public childcare. Rates differ considerably between areas (Datenreport, 2017).

Family stress may be manifested in anxiety, and results about anxiety in the middle-income class are ambiguous in Germany. Schöneck et al. (2011) differentiate between short-term fears and longer-term concerns of economic and social descent. They find that short-term risks dominate in the lower social status groups. But pessimistic views of the longer term future are widespread also in the middle class. Groh-Samberg und Hertel (2010) estimate, however, that the rate of anxiety in the middle class has not increased faster than in the other social strata. For a more detailed discussion, see also Arndt (2012).

Different studies find that social status is related to health in Germany. In general, young adults with low educational attainment or low social status tend more often to be overweight, smoke more and participate less in preventive health measures (German Ministry of Labour and Social Affairs, 2017). Young people lacking a school certificate or having a certificate from the lower tier of secondary education less often report a good or very good health status.

Jacobi et al. (2014) show, with data from the Mental Health Module of the German Health Interview and Examination Survey for Adults, that the prevalence of diagnoses of mental disorders (i.e. meeting criteria of at least one mental disorder during a 12-month time period) correlate with socio-economic status. Dominant among those disorders were anxiety (15.3%), mood disorders (9.3%) and substance-use disorders (5.7%). While previous differences in mental health between East and West Germany have diminished, differences between social statuses remain: mental health issues are less often in the middle (28%) class than in lower socio-economic status (38%), but more often than in higher socio-economic strata (22%).

Mental depression also goes hand-in-hand with social status: the rate of depression is estimated to be 14.4% among people with low social status, but below 7% for people with middle- and high social status (see Lampert et al. 2016). Overall, Lampert (2013) reckons that health inequality has not decreased in the last ten to 20 years, and that socio-economic differences in health may even have increased.

### **The labour market**

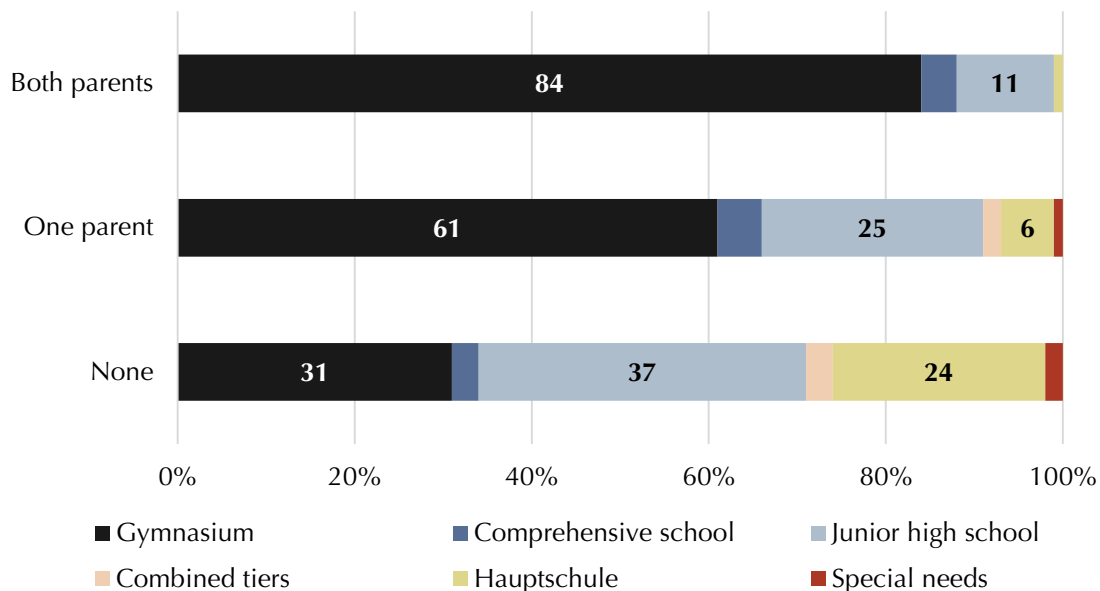
Unemployment in Germany has diminished considerably in the last decade. The number of unemployed has decreased from 4.9 million in 2005 to 2.7 million in 2016. The unemployment rate in 2016 was 6.1% (Federal Agency, 2017).

A study by the OECD shows that the employment rate has reached a level of 66% of the population and is higher than the OECD average of 61%. Based on a new measure of job quality, OECD (2017) finds that earnings quality is high and that labour market insecurity is low in Germany compared to the OECD average. Also, the expected monetary loss associated with becoming and remaining unemployed, as a share of previous earnings, is relatively low. Finally, the German labour market has become more inclusive, but gender labour income gaps stay high.

Together with the figures for overall unemployment, long-term unemployment has also declined. The number of long-term unemployed (1.7 million in 2007) decreased to below one million in 2016. Long-term unemployment as a share of total unemployment declined from 46% in 2007 to 37% in 2016. Finally, OECD (2017) finds that Germany, where 45% of workers report experiencing job strains, has a higher share of jobs with excessive job stress compared to other OECD countries.

### Social Mobility

A recent study commissioned for the 2017 German Poverty and Wealth Report (IAW 2015b) finds that the permeability of the society with regard to educational attainment has improved. Especially lower societal positions have become less sticky over generations. Nevertheless, family background and educational attainment are still closely linked. Background is the three-tier system of Germany's secondary education system, which starts in the 5<sup>th</sup> grade: The lowest tier qualifies for vocational training (Hauptschule). Only the highest tier (Gymnasium) qualifies immediately for university entrance. Figure 3 shows that the offspring of parents with higher educational attainments more often choose or are chosen for higher tiers when they enter secondary education. For example, only 31% of the kids whose parents have no university entrance qualification choose the highest tier of the secondary level, compared with 84% of the kids that choose the highest tier, when both parents have a university entrance qualification.



**Figure 3: Educational outcomes for number of parents with university entrance qualification**

Source: Own graph with data from IAW (2015b), S. 33. NEPS data.

Climbing the social ladder from a middle position to higher rungs has lately become more difficult. Whereas 17% of the people born between 1970 and 1987 achieved the rise from a middle job or educational status to a higher one, this had been achieved by 32% of those born between 1944 and 1959 (German Ministry of Labour and Social Affairs, p. 241). The greater part of this mobility is due to changes in the employment structure. For example, vocational training, which served for years as a ticket to the middle class, no longer guarantees incomes higher than those earned by untrained workers. Netting out changes in the employment structure, however, it is clear that social mobility over generations has improved (see Datenreport 2016, p. 216).

### **Generational issues**

Typically, earnings increase over the career of a working life and then drop when people enter retirement; that is, average income follows an inversely u-shaped curve over the lifetime. Hence, relative income poverty is highest for the youngest adults. Richness rates increase until retirement age, and begin to drop thereafter. Consequently, the share of people belonging to the middle-income class increases over age groups (see e.g. Niehues, 2017).

### **Regional differences**

There is a high degree of regional dispersion in Germany that prevails in different dimensions. The enormous economic disparities between East and West from the 1990s have been mitigated since unification, but do still exist. About 60% self-identify with the middle class in the West, whereas working class ideals had been promoted during the communist time of the German Democratic Republic. Consequently, the share of people that self-select into the middle class in the East grew during the process of the transition from less than 40% in 1990 to more than 50% in 2010.

New disparities appear, especially between rural and metropolitan areas, a process that is being fuelled by demographic change. While house prices soar in metropolitan regions, they have declined in many rural areas.

### **Household composition**

Compared to single households, couples without children and single parents, parents with children establish the largest household type. Couple households, with or without children, are the household groups with highest middle-income class prevalence compared to the other two groups, as Niehues (2017) shows.

### 3. Household perceptions

Estimations of the size of the middle class that are based on questionnaires in which people have to self-identify with the middle, typically point at a large middle class. In West Germany, the share of people self-identifying with the middle class grew from 69% in 2000 to 75% in 2014 (see Datenreport, 2016, p. 207). In East Germany, the level of identification with the middle class was traditionally much lower than in the west, due to differences in the political system before the fall of the iron curtain. Nevertheless, growth of the middle class, as reckoned by self-identification, has been higher in the East than in the West (from 48% in 2000 to 62% in 2014).

Despite this increase of self-perception of belonging to the middle class, the perception of overall growth of inequality is widespread. For example, 44% of interviewees stated in 2015 that they considered that income inequality had increased considerably in the previous five years (German Ministry of Labour and Social Affairs, 2017, p. 108). Other surveys, in contrast, find that more than 80% of the population sees its expectations regarding material living conditions as being met.

One explanation for the dichotomy between the data and perceptions might simply be a result of the business cycle and the memory of high unemployment. Lengfeld and Ordemann (2016) show that the fear of losing status in the middle class is anchored to the business cycle: Anxiety increased from the 90s to 2006 and fell thereafter. The level of anxiety in 2014 was again at par with that of 1991. The rise and fall of anxiety occurred in both the lower and the upper classes.

### 4. Political representation

The middle class traditionally forms the most important electorate of the centre-left and centre-right political parties. The turnout of the middle class has traditionally been high, but has slightly weakened in the last twenty years. In 1994, 94% of middle class members voted in national elections. This figure fell to 86% in 2013. In the last federal election of September 2017, turnout increased overall, and eligible voters from lower social status groups turned out in greater numbers than before.

As in some other countries, Germany has experienced the rise of a right-wing political movement. In the national elections of September 2017, the populist "Alternative für Deutschland" (AfD) party succeeded in entering the German parliament. The party won 12.6% of the votes and gained 93 out of 709 seats in the German Bundestag. For the first time since the 1950s there are seven parties in the German parliament.

The AfD was founded in 2013 by liberal-conservative economists, mainly to oppose federal policies towards the Euro. In the federal elections of 2013 it still missed the



threshold of 5%. Thereafter, the party changed into a populist, xenophobic and refugee-unfriendly party.

The most prevalent hypotheses that explain the success of the AfD are xenophobia, dissatisfaction with the political system and the parties, as well as the feeling of being left behind. A comprehensive explanation for its rise is probably a combination of all of these.

One important source of information is an immediate exit poll after the elections, established by the public service broadcaster ARD and the polling institute Infratest Dimap. First, the exit poll shows that AfD's success in the East (20.5%) is twice as high as in the West (10.7%). Second, the AfD is the only party where disappointment about the system in general outweighs belief and conviction for the program of the party itself: 61% of AfD's voters claimed to have voted out of general disappointment, and only 31% because of being convinced of the party program. This shows that the AfD is an established protesters' party. The most important policy themes for AfD voters, according to that exit poll, are three fights: against terrorism, against crime and against the immigration of refugees.

Third, the poll shows that the AfD is the only party in Germany whose voters prefer "national borders" over "being a country open to the world". This alludes to the party's nationalistic and foreigner-unfriendly tendencies.

Finally, the voters distribute more or less evenly between age groups. Interestingly, votes were especially frequent among the unemployed (21% of these voted for the AfD) and workers (21%). Votes among men in East Germany were 25%.

Vehrkamp and Wegschaider (2017) recently analysed voting patterns in different social milieus. They applied a social and target group model that had been developed by the German market researcher Sinus. Originally, these milieus were designed for the analysis of lifestyles and values in order to differentiate target groups for marketing goals. They are intended as maps of the socio-cultural diversity along two dimensions: social status and values. In the one dimension, it allows differentiation between lower, middle- and higher social status. In the other dimension, values span from "tradition", over "modernisation & individualisation", to "re-orientation" (see e.g. [www.sinus-institut.de](http://www.sinus-institut.de)).

The study by Vehrkamp and Wegschaider finds that 14% of voters in the milieu belonging to middle status voted for the AfD. This indicates that the middle class is not more or less inclined towards the AfD than German society itself. But in the so-called "New Middle Class Milieu" (in German, "Bürgerliche Mitte", a very narrow definition of the middle that comprises 13% of the total population), 20% voted for the AfD. Sinus defines this "New Middle Class" as "Mainstream civil society with the will to achieve and adapt: General proponents of the social order; desiring to become established at a professional and social level, seeking to lead a secure and harmonious

existence; a growing sense of being out of their depth, fear of social demotion” (see Sinus, 2015).

Still higher was the AfD share of votes with 28% in the so-called “Precarious milieu”. The Precarious milieu is described as “Desire to keep up with the consumer standards of the broad middle classes—but faced with ever more social disadvantages, a sense of exclusion, embitterment and resentment”. This shows that voting for the AfD is strongest only in some parts of the middle class and especially in the Precarious milieu—supposedly in strata who fear social demotion, who feel that they may be left behind, are who are faced with social disadvantages, fear exclusion and turn out to protest.

## 5. Globalisation, technology and migration

A strong labour market and comparably low youth unemployment are currently ploughing the soil for a healthy and stable middle-income class in the nearby future. Firms in Germany are benefitting from the growth of global markets, especially economic development in Asia. A high overall productivity, buttressed by the above-mentioned conservative wage development and an export-friendly Euro-exchange rate, secures high worldwide competitiveness. Technological change will open new opportunities but will also raise enormous uncertainty on large industries, especially the automobile industry, with its focus on the combustible engine, where wages are high and the middle class is at home. But roughly three quarters of German automobiles are exported. About 800,000 people work in the large car producers or their suppliers, and many more are directly or indirectly dependent on the car industry. A shift towards the electric motor might decrease the complexity of value chains and function as an employment shock for suppliers.

Demographic change will strongly impact the distribution of income between economically active people and retirees, when the German baby-boomer generation, born around 1965, enters retirement age. Given current birth rates, only technological change or qualified immigration will be able to mitigate the enormous undersupply of labour. Machines and artificial intelligence may offset some of the pressure on the labour market, but companies will have to pay enormous sums to engineers with the knowledge to produce these machines and code the software.

In this environment featuring constant change and volatility, and characterised by the ambiguity of challenges and opportunities, many people wonder if they will belong to the future winners or losers. Now add to the mix global political insecurity and the uncertainty resulting from the influx of refugees. Whereas many Germans are socially engaged and have become active volunteers for integrating and helping refugees, especially in the densely populated areas where many refugees are placed,

some fear the unknown, especially in the less densely populated areas in the East (where fewer refugees are placed). Many envy the social transfers that are aimed at the refugees.

## 6. Conclusion

The 60s and 70s brought economic growth and global competitiveness to Germany. They helped to build a broad middle-income class with comparably high levels of income equality in Germany. Vocational training and a blue-collar job used to put workers into the middle “class”. But over time, incomes have become more unequal, even though redistribution is well at work in Germany. The factors behind this development were mainly demographic change towards smaller households, divergence of wages, and rising unemployment until 2005. As a consequence, the population share of the middle class diminished.

For the time after 2005, the data show a stable development of the middle-income class. Moreover, more and more people self-identify with the middle class but claim to witness increasing inequality. Especially extreme wealth and precarious poverty are not covered by the typical household surveys that are used to calculate the middle-income class figures. Nevertheless, the extremes have become more salient and find their way into the media. Some important social groups, notably single parents and the unemployed, have to cope with comparably very low incomes. Technological change and demographic developments open up new possibilities but also pose enormous challenges. The consequences for the middle class remain to be seen.

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# Chapter 7: The Middle Class in Ireland

**Delma Byrne**

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This chapter outlines the position of the middle class in the Republic of Ireland since the economic crisis of 2008, and provides a review of the existing literature to outline the impact of national and European policies on the middle class. In doing so, it draws from existing analyses of the effects of the recession and subsequent austerity measures on Irish society and seeks to synthesise a number of individual studies, by exploring what happened to the middle-income groups that are the focus of this book, along a number of wide-ranging dimensions.

Ireland provides a particularly interesting context for the study of the middle class, for a number of reasons. Firstly, Ireland (as well as Poland) has experienced an increase between 2004 and 2013 in the size of the middle class (using a definition of 90-210 per cent of the median income). Secondly, Ireland proves to be a particularly interesting case study, given its recent period of macro-economic fluctuation over the past two decades. As indicated by Maître and Nolan (2016), Ireland experienced some of the fastest rates of economic growth in the Organisation for Economic Co-Operation (OECD) from the mid-1990s, followed by the most impetuous decline in national output of any OECD country at the onset of the Great Recession. Over the period of economic 'boom' and 'bust', the citizens of Ireland experienced sharp swings in taxation and public spending, making Ireland a clear outlier in terms of macroeconomic fluctuations.

This chapter seeks to expand this work, and explore what happened to the middle-income groups that are the focus of this book, along a range of further dimensions.

## *The Irish Economy*

During the economic crisis, average incomes fell sharply as Ireland experienced the full force of a major recession. The overview chapter shows how real income growth in Ireland for the median household over the period 2007-2013 was among the lowest amongst the countries under investigation in this volume. The fiscal and social policy direction that Ireland took particularly between late 2010 and 2013 was largely influenced by the 'Troika'— the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF)— the three institutions from which Ireland received a bailout in late 2010.

In November 2010, the Irish government agreed to the provision of €85bn of financial support by Member States of the European Union through the European Financial Stability Fund (EFSF) and the European Financial Stability Mechanism; bilateral loans from the UK, Sweden and Denmark, and the IMF's Extended Fund Facility (EFF) on the basis of specified conditions relating to bank restructuring and reorganisation, fiscal

policy and structural reform. Irish taxpayers shouldered the full costs of recapitalising the Irish banking system after its collapse<sup>1</sup>.

Fiscal adjustment measures were severe, as the Irish government embarked on an austerity programme to restore balance to the public finances (see Keane et al. 2014; Reidy and White 2017). In December 2013, Ireland completed the EU-IMF financial assistance programme, with the vast majority of policy conditions under the programme substantially met and investor confidence restored for the sovereign and the banks. Ireland is currently subject to post-programme surveillance (PPS) until at least 75% of the financial assistance received has been paid – until at least 2031.

After several years of higher taxes and frozen or reduced public services and spending, the Irish economy began to recover, and by 2015 the macroeconomic conditions improved and the Irish economy grew faster<sup>2</sup> than any other in Europe in 2015. By summer 2017, the pace of employment creation and reduction in unemployment had increased, and the expected performance of the Irish economy (in GDP growth rates) in 2018 is expected to remain high among countries of the European Union at 3.6 per cent (McQuinn, Foley and O’Toole 2017).

## 1. Income perspective

As indicated in the overview chapter, Ireland is a particularly interesting case study because contrary to many of its European counterparts, it has been characterized as having had an increase between 2004 and 2013 in the size of its middle class (using a definition of 90-210% of the median income). Maître and Nolan (2016) examine the composition of the different income groups over the period 1995 to 2008, and 2008 to 2012. Figure 1 shows how the distribution of persons in terms of their household equivalised disposable income changed over the period<sup>3</sup>.

From Figure 1 we observe an increase in the proportion falling into the middle-income category (between 80 and 120% of the median) from 24% in 1995 to almost 30% by 2012. With the exception of those at the bottom, an increase in all income groups also continued during the recessionary years. The proportion occupying the middle/upper-middle income groups grew modestly from 56.5% in 2008 to 58% by 2012, and the share of the top income group increased from 8.4% to 8.6%. These patterns are explained by

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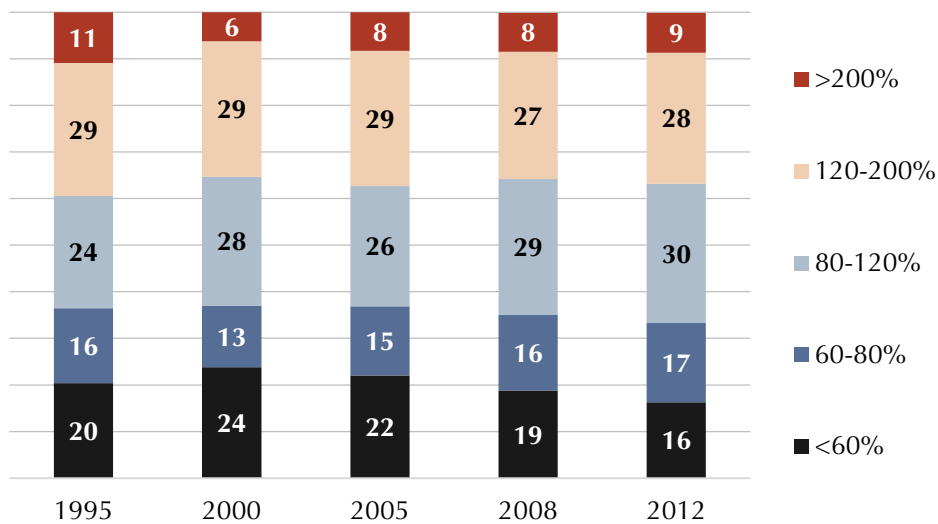
<sup>1</sup> To restore the capital base of the Irish banking system, the Irish government provided up to €64bn to the banks, amounting to about 40% of GDP.

<sup>2</sup> Growth was good even without the revision by Ireland’s Central Statistics Office (in July 2016, revising the 2015 GDP growth number to 26.3%). This was caused by a change in the way investments are treated in GDP statistics. See <https://www.economist.com/news/europe/21702232-why-gdp-growth-26-year-mad-not-full-shilling>

<sup>3</sup> Based on the position of the Household Representative Person (HRP), defined as ‘the person responsible for meeting the household’s housing costs or the older of those jointly responsible’.

the high share of recipients (particularly pensioners) above the median-based poverty threshold in the crisis; despite increasing unemployment and increasing numbers in receipt of social welfare during the period Maître and Nolan (2016).

It is important to note that the size of the middle-income class varies with the exact definition. Using expanded categories, Whelan et al. (2017) find little change in the size of the lower- and middle-class income groups between 2008 and 2012. Using different class-income group thresholds<sup>4</sup>, they find that the middle-income class groups represent approximately 55% of households, and that this has remained stable between 2008 and 2012<sup>5</sup>.



**Figure 1: Distribution of persons by income category 1995-2012**

Source: Maître and Nolan (2016)

An important question is whether the Irish middle-income class has been ‘squeezed’. This subject has gained considerable attention among sociologists and economists in the Irish context (see, for example, *Irish Times* 2012; Callan et al., 2014; Mühlau 2014; Whelan, Russell and Maître 2016; Maître and Nolan 2016; Callan et al 2017; Whelan, Nolan and Maître 2017).

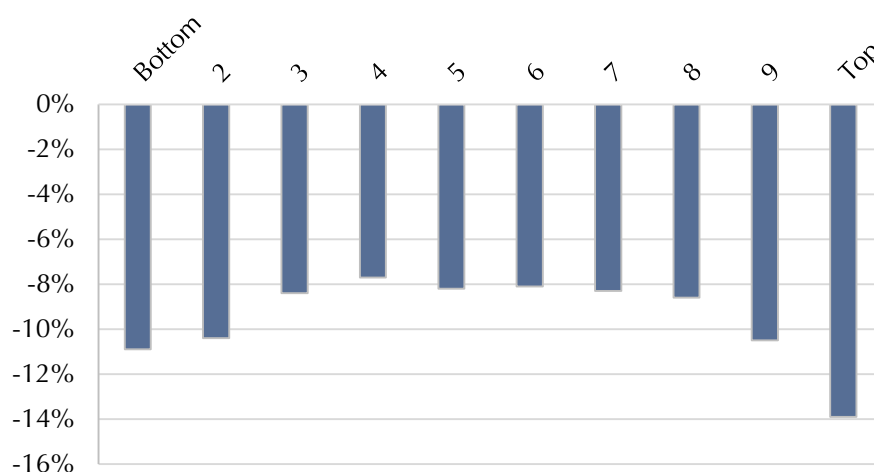
From an income perspective, from the early recession years, between 2009 and 2011, Callan et al. (2014) find an 8% fall in market incomes. They report that the greatest losses in income share were evident on the bottom and the top of the income distribution, while policy measures reduced incomes by more in the upper half than in the lower half

<sup>4</sup> In their analyses, they define the lower middle-income class as between 75-125% of median equivalised income, and the upper middle-income class within the range of 125-166% of median equivalised income.

<sup>5</sup> They also report that the share of the affluent income class remained stable at 16% between 2008 and 2012.



of the distribution<sup>6</sup>. That is, while all groups experienced a squeeze during the recession, they argued that it was less sharp than that experienced by the top and the bottom. A later paper, again using cross-sectional data, found that that the greatest losses in disposable income during this period (2008-2015) were at the bottom, with lower losses in the middle reaches of the distribution. With regard to losses in average earnings, the panel element of the EU-SILC, the greatest losses in average earnings are reported at the top of the income distribution, with lower losses for middle-income deciles, and gains in particular for the bottom income. This is also suggested by Figure 2 below, which shows the net effect of changes in tax and welfare policies.



**Figure 2: Net effect on household incomes of tax and welfare policy 2009-2013**

Each bar represents a decile of the household income distribution. The size of the bar is the impact of discretionary changes in direct taxes and welfare policy, in percentage changes of household income for the period 2009-2013. Source: Callan et al. 2017: 17.

For disposable incomes, however, the effects are not like Figure 2. Based on the EU-SILC panel data, Callan et al. (2017) find the greatest losses in average earnings at the

<sup>6</sup> These policy changes included the introduction of a Pension Related Deduction (PRD) in 2009 for public sector workers, pay cuts for public sector workers in 2010 and reductions in entry wages by 10% for new entrants; incentivised early retirements; the introduction of an income levy payable on gross income (excluding welfare payments) in 2009 and later replaced with a new form of income tax— the Universal Social Charge (USC); in 2011, the standard rate band of tax was reduced, as were the main tax credits; property taxes in 2011; tax relief on pension contributions were reduced and employee pension contributions became liable for PRSI and the USC; indirect taxes were increased with the rise in the standard rate of VAT and a new carbon tax. While social welfare payments initially increased in 2009, the Budgets of 2010 and 2011 reduced the rates of support provided by most social welfare schemes applicable to those of working age; deeper cuts were made to the universal Child Benefit payment, payments to young unemployed people were reduced very substantially, while rates of payment for old-age pensions remained unchanged.

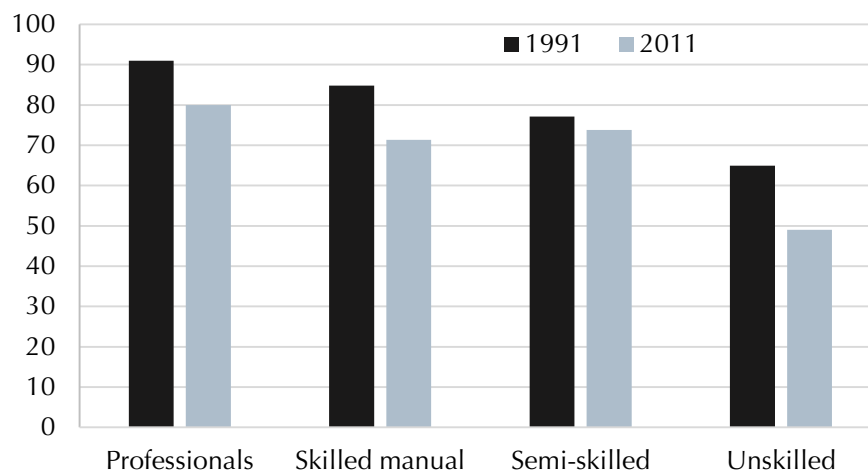
top of the income distribution, with lower losses for middle-income deciles, and gains in particular for the bottom income deciles. It is argued that the tax-benefit system partly offset inequality of the market income distribution during the crisis in Ireland. Welfare changes played the main role in driving changes at the bottom of the distribution, while tax and public sector pay changes dominated for the top of the distribution.

## 2. Non-income-related perspectives

### **The affordability of housing**

Housing in Ireland has been under considerable pressure in recent years. The Irish housing market was one of the most affected across the OECD after the international financial downturn of 2007/08, with prices falling by 54 per cent in nominal values between 2007 and 2013 (McQuinn 2017). During the economic crisis the collapse of the housing market was felt by all groups and there is now considerable evidence that housing is socially stratified in the Irish context— not only in terms of homeownership but also in terms of mortgage arrears and mortgage default, and homelessness. At a time when homeownership rates are rising in some European countries, they are falling in Ireland and are currently at their lowest in almost 50 years (CSO 2017). Ireland's rate of homeownership peaked at 80% of households in 1991, with private rental accounting for 8% and social renting for 10%. By 2011, owner-occupation had fallen to 71%, while 19% of households rented from a private landlord, and 9% rented from a local authority or voluntary association (known as Approved Housing Bodies— AHBs).

The greatest declines in home-ownership levels have been among the younger generations, particularly those aged 35-44 (Hearne 2017). Figure 3 outlines changes in homeownership by social class among 35-44 year-olds in Ireland, over the period 1991 to 2011. Clearly, all social class groups have experienced declines in homeownership levels. However, while the professional and skilled manual groups experienced a 12% and 16% decline in homeownership, respectively, the unskilled manual group experienced a decline of 24%. Owner-occupation is also much higher among households headed by Irish nationals compared to non-Irish nationals— 77% compared to 34%, respectively (NESC 2014).



**Figure 3: Owner-occupiers aged 35-44 by social class group, 1991 and 2011**

Source: NESC 2014 in Hearne (2017)

In Ireland, levels of indebtedness among households are high by European standards. While in consistent decline since 2011, Irish household debt has fallen more than any other EU country as a proportion of disposable income in recent years (Central Bank of Ireland 2017). According to the Central Bank of Ireland, households remain highly indebted and vulnerable to increases in interest rates and unpredicted unemployment shocks. It is also argued that holders of mortgage tracker rates would suffer if policy rates were to increase (McQuinn et al., 2017).

However, the case remains that many people are in arrears with their mortgage payments which leads to stress (see Murphy and Scott 2013; O'Callaghan 2015; EU Spring 2017). The concentration of mortgage stress among poorer households is the result not only of the large expansion in mortgage lending among lower income groups in Ireland but also of a distinct decline in mortgage appraisal quality within the banks themselves (Regling and Watson 2010). A study of mortgage stress levels found that while mortgage stress is a feature of life for all social groups, it is socially stratified. Higher mortgage stress levels are also evident among particular social classes, with 61% of those in the overt group and 43% of those in the moderate stress group found among households from non-manual, skilled and semi-skilled backgrounds. Conversely, the majority of those *without* any mortgage stress (71%) are found among professional and managerial households (Waldron and Redmond 2017).

The severe social costs of the housing shortage are the most salient in the still-increasing levels of homelessness. The most recent figures from the Department of Housing, Planning, Community and Local Government show a record total of more than 8,160 people homeless in Ireland. Nationally, there are now 5,187 adults and 2,973 children homeless, a rise of 25% from July 2016 to July 2017.

### Family stress

A key contribution by sociologists has been to tap into the effects of the recession through a broader understanding of economic stress and social exclusion. The recession brought with it considerable stress for families, and empirical research has identified changes in the composition of families that experienced deprivation and economic stress over the recessionary period (Watson et al., 2016; Whelan et al., 2016). In estimating the degree of family stress imposed on middle class families, the situation of the middle class must be placed in a context of absolute and relative change over time. With regard to measures of deprivation and economic stress, Whelan et al., (2016) report that those classified as income poor experienced the highest average levels of deprivation and economic stress while the affluent experienced the lowest average levels. While all income classes maintained their relative positions, the sharpest absolute increases were found for the precarious and lower middle income groups, pointing to a squeeze on these groups. Later research by Watson et al., (2016) suggests that the recession had a stronger economic stress impact, in relative terms, on families that had initially been more advantaged along the lines of household income, social class and family structure. What is interesting is that these findings suggest a divide within the Irish middle class.

Whelan et al., (2016) also report clear life course effects by social class - among those aged 35 or under, farmers were significantly more likely to experience economic stress than the higher salariat group; among those aged 35-64, lower social class groups are more likely to experience risk of rising economic stress, and among those aged 65+ all groups, with the exception of the lower salariat and farmers, were more likely to experience risk than higher salariat.

Families with children also bore a considerable brunt of the recession. Child poverty rates increased as did the percentage of children living in households reporting deprivation (Cantillon et al., 2017). More broadly, there is some contention in Ireland regarding the distributional implications of austerity measures. While some argue that the true effects of the recession were buffered by the redistributive impact of the direct tax and transfer system (Cantillon et al., 2017), others argue that indirect taxation is highly regressive in social class terms (Collins 2014).

Family stress can also be measured through work-life conflict, and sociological research has identified that work-life conflict is likely to have a disproportionate impact on females in middle class families (McGinnity and Calvert 2009; Notten, Grunow and Verbakel 2017). McGinnity and Russell (2013) examined the issue of work-family conflict in the period before and during the recession (2003 and 2009 respectively). Comparing employees in 2003 and 2009, they report, as with other European countries, a rise in work-family conflict in Ireland, with working hours and working conditions being particular influences on satisfaction with work-life balance. Later research conducted by the European Foundation for the Improvement of Living and Working

Conditions (2013) concludes that work-life balance was particularly under pressure in countries hit hard by the crisis such as Ireland and Spain.

### **The labour market**

Against the backdrop of the macroeconomic bust and boom, Ireland saw dramatic changes in the labour market, in terms of patterns of employment and unemployment, earnings, occupational structures and job 'quality' and institutional context (Maître and Nolan 2016). The very poor employment prospects of young people, even among graduates, have been outlined above. As shown in the overview of Chapter 2, the unemployment rate rose sharply to almost 15%. ESRI research finds that while unemployment levels have been in visible decline in Ireland since Q3 2013, currently at 6.4% it is approaching pre-crisis levels (McQuinn et al, 2017). The decline in unemployment was very heavily concentrated among young men: unemployment rates for those aged 20-24 rose from 8% to 32% and for those aged 25-34 from 5% to 20%. Young people, particularly those without a higher education qualification, were very badly hit by the recession, and it is argued that they have not benefitted from the recovery (Roche, O'Connell and Prothero 2017). By May 2017, the youth unemployment rate for those aged 15-24 had reached 11.7%, down from a peak of just over 30% in Q1 2012. To this end, Ireland's performance is in line with the European Union average (McQuinn et al., 2017).

With regard to long-term unemployment, while OECD (2017) projects a gradual improvement of labour market conditions in Ireland, by 2016 the long-term unemployment rate remains high at 55.3 per cent.

Recent research drawing from European Social Survey (ESS) data highlights the issue of job insecurity among youth, whereby the proportion of young people on non-permanent contracts is particularly high in Ireland as well as in Poland and in Southern Europe (Russell, Leschke and Smith, 2015). Irish youth alongside Spanish youth and those from the UK have experienced the largest decline in employability perceptions between 2004 and 2010. In contrast, youth in other European countries are more positive about their employability than adults. During the recessionary years, youth were particularly exposed to a hiring freeze, as well as 'labour shredding' in the wholesale and retail sector (O'Reilly 2015). While graduates experienced a lower risk of unemployment than those without a higher education qualification, they were not protected from the recession.

Considerable disparities are evident in employment rates before and during the recession for graduates, as rates of full-time employment decreased and part-time employment and inactivity increased over the recessionary period (Byrne 2017). These patterns also differ considerably by field of study, with STEM and Education graduates experiencing greater risks of unemployment than previously. The impact of the recession on graduates in Ireland has been a particular issue for the middle class, as both

employment probabilities and the earnings premium associated with a degree was hampered by the economic recession (Conefrey and Smith 2014; Maître and Nolan 2016). Rates of over-education in Ireland are also among the highest in Europe.

A Eurofound report finds that the resumption of modest employment growth over the period 2012-2013 was polarising, with the majority of new employment emerging from the low wage sector, largely due to an increase in agricultural employment. A more recent 2017 report suggest that gains in employment growth since 2013 has emerged from the lower/middle income quintiles, concluding that much of the new employment created has been in different, lower-paid jobs<sup>7</sup>.

Ireland can be characterised as a country with relatively moderate levels of female labour force participation, and moderate levels of employment among mothers. On average across EU countries, 68% with children aged 0-14 are in employment compared to 60% in Ireland (including both full and part-time employment). OECD data reveals that female labour force participation has decreased since the pre-recessionary period, from 54.7% in 2007 to 52.8% in 2015. At the on-set of the recession, the gender-employment gap narrowed as the employment rate fell for both males and females, but more steeply for males. The recession ended the longer-term increase in female labour force participation, in spite of increasing education levels and a changing age profile of women in Ireland.

### **Social Mobility**

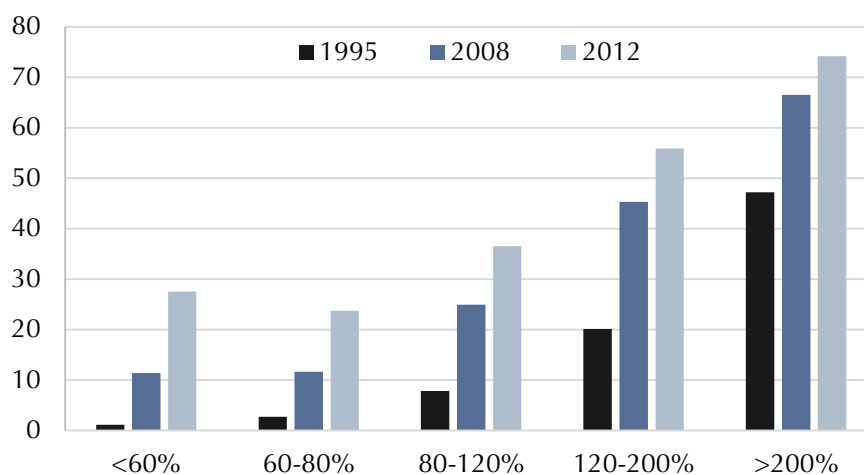
Ireland has comparatively low levels of absolute and relative mobility and is characterised as a relatively rigid system where the chances of children ending up in the same hierarchical position of their parents are great. Work experience and job mobility, both facilitated by the acquisition of higher educational qualifications, are key drivers of social mobility in the Irish context. Participation in HE in Ireland is particularly high by European standards, and continues to increase. Over the recessionary period, the share of applicants to higher education among school leavers was maintained at just under 60%, and increased from 2014 onwards. However, sectoral differentiation in the HE system in Ireland results in considerable social stratification, whereby middle and upper class students are more likely to attend a university while working class students are more likely to attend an Institute of Technology or not attend HE at all (Byrne and McCoy 2017; McCoy and Smyth 2011). The returns to higher education differ depending on the sector attended, where there is an earnings premium attached to university graduates, all else being equal (Kelly, O'Connell and Smyth 2010).

In their study of the middle class, Maître and Nolan (2016) consider the educational levels of income groups. Figure 4 shows the distribution of people having tertiary

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<sup>7</sup> [https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/ef1710en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1710en.pdf)

education degrees, based on the Household Reference Person (HRP). Reflecting the discussion above, it shows that, across all income groups, there has been a marked increase in the proportion of HRPs with tertiary education<sup>8</sup>. The educational gap between income groups declined due to growth in higher educational attainment at the bottom of the income distribution. By 2012, over a quarter (28%) of low-income households had third-level qualifications, up from 11% in 2008.



**Figure 4: Tertiary education per income class 1995-2012**

Percentage of households in income class with the Household reference person (HRP) having tertiary education 1995-2012. Source: Maître and Nolan, 2016

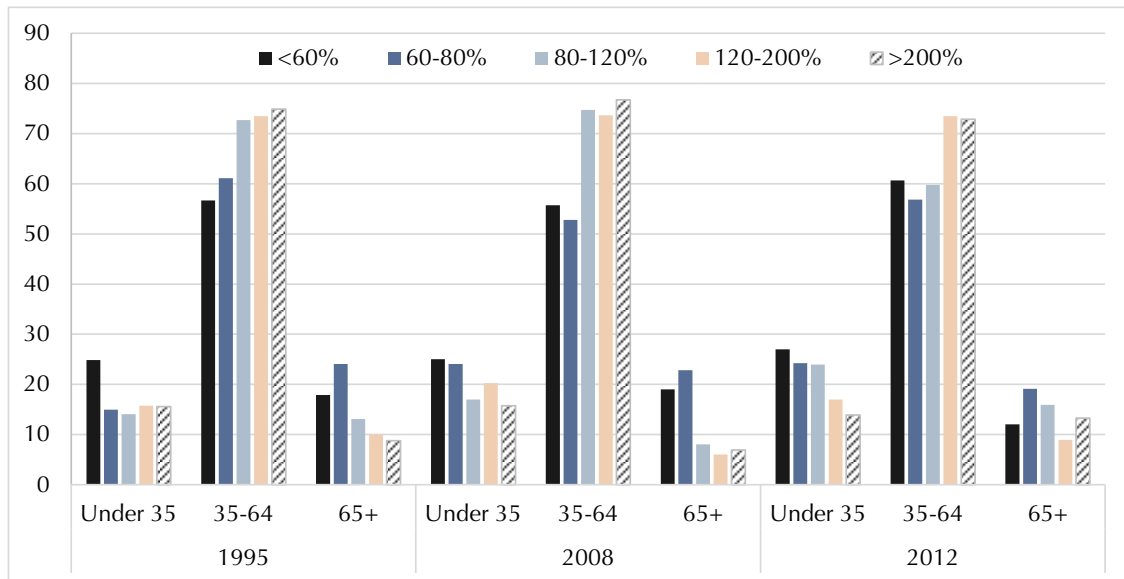
On average, the share of workers with a third-level education increased from 37% in 2007 to over 50% in 2013 (see Holton and O'Neill 2017). Maître and Nolan (2016) argue that this reflects the wide-ranging impact of the recession on employment levels across the distribution, and the very poor employment prospects of young people, especially those coming entering the labour market for the first time during the recession. This has led many people to obtain a higher educational degree.

### Generational issues

The composition of the middle class changed somewhat over the period in terms of age. Those aged 65+ were most protected, as they saw an increase in their share in the middle/upper-middle- and top-income groups. While older workers (those aged 36-64) experienced some loss in the middle-income group, they were relatively protected in the upper-middle/top-income groups. Younger working-age persons increased their share in middle-income positions, but saw a decline in their share of upper-middle/top

<sup>8</sup> Holton and O'Neill (2017) used EU-SILC from 2003-2014 to report striking improvements in the education levels of the workforce during the recession. The data reveal an increasing proportion of workers with a third-level qualification, from 37% in 2007 to over 50% in 2013. This was accompanied by a decline in the proportion of workers with primary education or less, from 11% in 2007 to less than 5% in 2013.

income groups. These age patterns illustrate how those of working age experienced the greatest impact of the recession in terms of falling employment and earnings, while pensioners were protected to a greater extent and so their household income moved up the income categories (Maître and Nolan 2016).



**Figure 5: Income per age-group 1995-2012**

Source: Maître and Nolan (2016)

The composition of the middle class changed in terms of age and educational attainment during the crisis years. As indicated in Figure 5, middle/high-income groups are predominately occupied by those aged 35-64. Between 2008 and 2012, the share of the middle-aged group declined from 75 to 60%. Their share of the high-income groups remained relatively stable over this period<sup>9</sup>. Younger households— those aged 35 or under— increased their participation in the middle-income group from 17% in 2008 up to 24% in 2012; however, they also experienced a fall in their share within the upper-middle- and top-income groups. Over the crisis years, those aged over 65 obtained an increasing share among the middle-income, upper-middle income and top-income groups.

### Regional differences

The Central Statistics Office (CSO) provides data on the geographical dispersion of household incomes across Ireland<sup>10</sup>. Between 2004 and 2013, household disposable income grew higher than average in Dublin, and lower elsewhere. The Midland, Border and West regions have continuously earned less than the State average.

<sup>9</sup> It should be noted that their share of the top-income group declined from 77% in 2008 to 73% in 2012.

<sup>10</sup> See <http://www.cso.ie/en/releasesandpublications/er/cirgdp/countyincomesandregionalgdp2013/>



### Household composition

From the 2016 census<sup>11</sup> of the CSO it seems that the steady decline in the number of children per household has halted. It stands now at 1.38 children per household, the same number as in the 2011 census (from 1.82 in 1996). However, it could be that this number is influenced by the increase in the number of adults (18+) that still live at home. This increase, of 19%, could be related to the economic crisis after 2008, and it fits with the large increase in enrolment rates in higher education. Young adults seem to have chosen to delay their entry into both the labour- and the housing markets by staying at home longer.

Families with children also bore a considerable brunt of the recession. Child poverty rates increased as did the percentage of children living in households reporting deprivation (Cantillon et al., 2017).

### 3. Household perceptions

Interestingly an OECD study finds that just under 60% in Ireland consider themselves as middle class, lower than the two-thirds who do so in the OECD. There is an impression in the public discourse in Ireland that the middle class has been particularly hard-hit by the crisis. An example is the 'Squeezed Middle Class' series in the *Irish Times* of February 2012. It suggests that, in the austerity measures taken by the Irish Government, the middle class is suffering the most economically. Another argument featured in the *Irish Independent* article of July 2016, under the title of 'The unmaking of the middle class'<sup>12</sup>. It lists the aspects of lifestyle and upward mobility that were traditionally connected to middle class life, but have disappeared or are now much harder to achieve. However, it is important to note that the relativities between social class groups remain.

Adopting a retrospective approach, Mühlau (2012) analyses the perceptions of Irish households regarding their financial situation. Manual workers appear to be the most severely hit, more than people in service occupations. One reason that may be driving the negative perception has to do with the good fortunes of many households prior to the economic downturn, i.e., the period until 2008. For example, the assets of Irish households almost doubled between 2001 and 2008. Such a development cannot continue indefinitely and came to an end in 2008. Households faced unemployment risks and a sharp decline in the value of their house. These are factors outside of the control of the household and have led to fears and anxiety. Mühlau describes this development as a 'qualitative change' in the situation of the middle class households, while their relative position within society has not changed by much.

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<sup>11</sup> <http://www.cso.ie/en/releasesandpublications/ep/p-cp4hf/cp4hf/fmls/>

<sup>12</sup> <https://www.independent.ie/life/the-unmaking-of-the-middle-class-34876346.html>

While economists often view class position through the lens of class income groups, there is less consensus regarding what constitutes class from a sociological perspective. That is, on the one hand sociologists such as John Goldthorpe adopt a contained approach to the meaning of social class, others such as Mike Savage argue for an expanded and transformed class theory. In the Irish context, research demonstrates that the relationship between family social class of origin and opportunities and choices result from differential resources and experiences. However, while the previous sections of this chapter indicate that there is strong class consciousness in the Irish context, there is also abundant evidence that ethnicity, sexuality, gender, nationality, age and location also play a part. Addressing the intersectionalities with class is an important context for the future study of the middle class.

#### 4. Political representation

The macroeconomic fluctuations have left Ireland with a fragmented political landscape and a partially reformed political system. Marsh and Mikhaylov (2014), comparing voting behaviour in 2002, 2007 and 2011, find that the crisis did not result in the redefinition of the electoral landscape. However, Tilley and Garry (2017) demonstrate that social class influenced voting choices more during the recession – in 2011 – than in earlier elections of 2007 and 2002. That is, in the 2011 election, as one centre-right party replaced another, there was some shift in class support.

Over the period prior to the recession 2002-2007, middle-class support for the centre-right parties increased, but in a context of economic crisis, middle-class and relatively right-wing defectors of the ruling party (FF) opted for another centre-right party (FG), while working-class and relatively left-wing defectors opted for Labour and Sinn Fein (Tilly and Garry 2017). Unlike some other European countries in this volume, Ireland has, politically speaking, less anti-immigrant feeling and there is no serious right-wing populist party or movement (O’Riain 2017). Instead, working class voters, through local organisation, have been attracted to the by left nationalist Sinn Fein, and a variety of smaller left parties and independents, thus helping to obstruct the emergence of anti-immigration platforms (O’Riain 2017).

Unlike in other European countries, there has been very little resistance in Ireland to austerity, with the exception of protest coalitions around water charges and other single-austerity issues (Coulter & Nagle, 2015). Reidy and White argue that ‘the increased popularity of leftist parties in Europe and Ireland is largely based on a public that has greater interest in providing increased benefits for the middle- and lower classes than for high-income earners’ (Reidy and White, 2017:121). However, they caution ‘In Ireland and elsewhere an economic system that favours the extremely wealthy or even those in the higher income brackets, but does not improve the economic conditions of the poor or the middle class, will increasingly face electoral challenges

from those who promise higher standards of living for those who have been left behind by the policies of austerity’.

## 5. Conclusion

Ireland provides an interesting context to examine the middle class. Political discourse in the Irish context regularly promotes an economic agenda and policies for the middle class, and this has been particularly pertinent of late. This review indicates that it is less a case of shrinking, and more of persistence with regard to the middle class in the Irish context. In contrast to a range of countries across the EU, research on the middle class in Ireland suggests that the size of the middle class has increased or remained stable. Just over half of households can be described as being middle class. It would appear that the middle class are older and more educated than those in other social class groups.

This chapter shows that the effects of the recession and subsequent fiscal and social policy developments had an impact across the whole class structure. While much of this research is in its infancy in the Irish context, and is more often than not cross-sectional in nature, what has often emerged is an undeniable decline in the fortunes of the middle class over the recessionary period, coupled with greater opportunities to maintain their relative advantage over time.

While it has been argued that attending to the middle class will have a positive impact on reducing income inequality, this must be balanced with improving the economic and social outcomes of the poor and most vulnerable in Irish society.

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# Chapter 8: The Middle Class in Italy

**Rosamaria Bitetti & Federico Morganti**

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This chapter describes the development of income, equality and social mobility in the perspective of the economic history of Italy, and links it with the cultural dimension of how the Italian middle class perceives itself, its problems and the political market.

Aggregate statistics about Italy—as can be seen in the overview of Chapter 2—show that the middle class has statistically held its size and income in the last decade. However, the Great Recession brought dissatisfaction and a diffuse feeling of decline to the Italian middle class, which fuelled the rise of populist parties and a populist shift in the public discourse of mainstream parties. This discontent follows more than a decade of economic stagnation, which affected the likelihood of new generations becoming middle class.

The long period of Italian stagnation covers a period of unsustainable growth, led by public expenditure, which created illusory confidence in unsustainable living standards of the middle class. It replaced civic virtues of dynamism and mobility by privileges and a longing for the “golden age” of high public spending, which was the very cause of its stagnation. The price of that expansionary period has been paid by younger generations, who are unable to join the middle class and now look at their future with justified concern.

Younger generations face a severe reduction in income and limited access to the labour market. The refugee crisis and increased economic migration also created strong tensions that were quickly harnessed and driven by a surge of new populist movements.

In the Italian context, the middle class is at a crossroads: it either should take charge of its social entrepreneurial role, and support a political class able to make bold choices, or should indulge itself along the road of its negative self-perception following populist movements. If obtaining growth is desirable, then large and encompassing reforms are required to simplify the labour market and increase competition<sup>1</sup>.

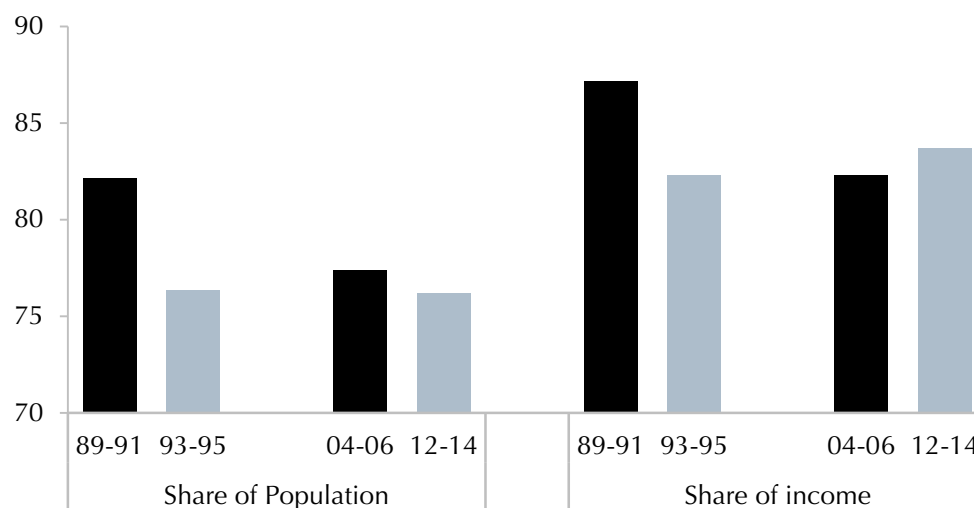
## 1. The income perspective

Using data collected by the Bank of Italy in “Indagine sui bilanci delle famiglie italiane” (IBF, one of the oldest data collection on income and social conditions of households dating over 50 years), we assess the situation of the Italian middle class

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<sup>1</sup> Bitetti, R. “Austerity is not enough”, in Stagnaro, C. *Index of Liberalizations 2015*, IBL Libri, 2016 pp 27-46

over the longer term<sup>2</sup>. Comparing the aftermath of the recession of the 1990s with the previous years (Figure 1), we see that the population share of the middle decreased by 6%, and the equivalent disposable income owned by middle class declined by 5%. Comparing the periods before and after the Great Recession, we observe not only that the middle class held its size, but also that its share of the income grew.



**Figure 1: Middle-class share and income around recessions**

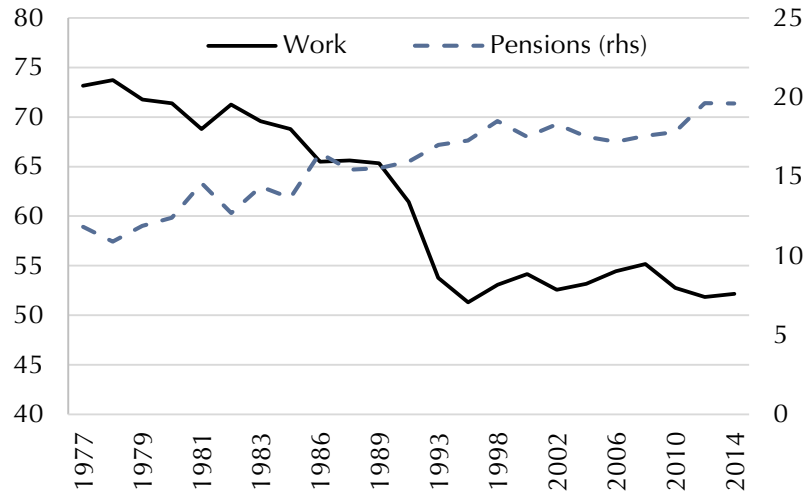
Source: Bank of Italy, IBF

The joint decline in population and income share of the middle class in the 1990s is a reflection of the budgetary reforms and cuts in government expenditures. After a declining trend, also the Gini index sharply increased after the recession of 1992-1993. The lower income class increased from 6 to 21% and the disposable income of the high-income class increased.

The global financial crisis of 2008/2009 and the subsequent sovereign debt crisis reduced the overall income of the Italian population, but had limited effect on overall inequalities<sup>3</sup>. The effect was different because the composition of the middle class, its source of income and its exposure to market risk fluctuations changed substantially. Reflecting a general trend in the composition of households' source of income (Figure 2), the relative weight of pensions became more and more important with time, while the households receiving income from work declined.

<sup>2</sup> Banca d'Italia, "Indagine sui bilanci delle famiglie italiane". English version available at: <http://www.bancaditalia.it/pubblicazioni/indagine-famiglie/>

<sup>3</sup> Banca d'Italia, "I bilanci delle famiglie italiane: uno sguardo di lungo periodo", in *Relazione Annuale 2015*.



**Figure 2: Share of households by source of income**

Work on the primary axis, Pensions on the secondary axis. Source: Bank of Italy, IBF

Italian productivity is not growing fast enough to accommodate the expectations of new generations. Total factor productivity, which grew at an average rate of 1.4% in the period between 1974 and 1993, grew less than 0.3% on average in the following decades, and made recovery in the Great Recession particularly difficult.

The economic stagnation affected mostly families whose income came from labour: the employed first and then also the self-employed. The impact was especially strong for those trying to enter the labour market. On average, the price of both the long-term stagnation and the crisis was paid by the young people, who face not only an unemployment rate almost double the EU average, but also temporary occupations and a significant reduction of income.

The problems of the middle class are, in Italy, mostly related to limited economic growth and poor dynamism, with a strong intergenerational imbalance. While the older-generation middle class is still receiving a great deal from public welfare, they are seeing the world collapse as their children—now grown-up—are paying the consequences.



## 2. Non-income-related perspectives

### **The affordability of housing**

According to Ingaramo & Sabatino,<sup>4</sup> the Italian middle class experienced from the early '70s to the 1990s a significant rise in rental prices (+63% by 1996), which was not paralleled by an equivalent increase in income levels. The social unrest this provoked resulted in a further call for government regulation in the rental market.

From 1977 to 2010, the share of house-owning families went from slightly above 50% to 72%, an increase in homeownership that benefitted especially older generations (from 60 to 80%). In the same period, the share of families indebted for buying or refurbishing a house increased from 4 to 11%. Also, the total value of debt compared to the value of the housing stock increased: while the latter doubled, the former tripled<sup>5</sup>.

### **Family stress**

According to the 2017 Annual Report issued by ISTAT (the national statistical agency), the feeling of class identity is lost for the lower middle class, and for highly educated young people with temporary jobs. Only those households whose income comes mostly from public jobs or generous pensions are still able to fit the traditional definitions of middle class— but they have to sustain an extended family, since almost 9 million of Italians under 34 years of age still live with their parents<sup>6</sup>.

### **The labour market**

The Italian labour market has always been heavily regulated, while being characterised by a strong dualism between fiercely protected contracts and “atypical” contracts, which disproportionately concern youth, women and non-skilled workers. The market is further characterised by an absence of general policies for the labour market and by consistent recourse to subsidies intended to circumvent the bankruptcy of specific companies, thus preserving the inefficient structure of firms, rather than employees' income. This dualism and supply-oriented unemployment policies have only minimally been tackled by policies that were not structural, and thus only had — at best — a temporary effect.

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<sup>4</sup> Ingaramo, L. & Sabatino, S. (2009). *Housing Affordability in Italy: An Analysis to Work out Joint Strategies of Intervention*. In: ISA - International Housing Conference - Housing Assets Housing People, GLASGOW, 1-4/09/2012.

<sup>5</sup> Cfr. I bilanci delle famiglie italiane nell'anno 2014, in Supplementi al Bollettino Statistico, 64, 2015.

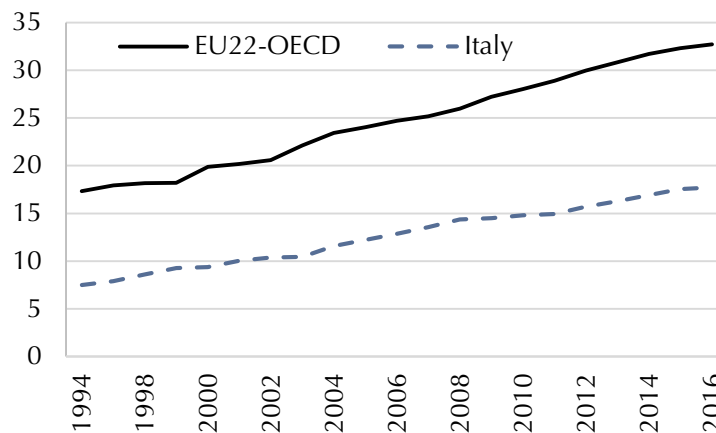
<sup>6</sup> ISTAT, *Rapporto Annuale 2017*, <https://www.istat.it/it/archivio/199318> English summary available here: <https://www.istat.it/en/archive/201296>

### Social mobility

In the last decades, the Italian population has become better educated, and this was initially well absorbed by the Italian economy. By the 1980s, Italian growth benefited from the alphabetisation process: in the aftermath of the Second World War, about 12% of the population had no education at all– but this declined to 4% by the 1970s. By the 1990s there was a significant increase in secondary and technical education, although tertiary education became prevalent only after 1993. However, as the levels of educational attainment rose, the return on education started to decline. Banca d'Italia suggests that tertiary education was not a major driver of economic growth, since increases of productivity were higher in those “made in Italy” clusters characterised by lower levels of education attainment<sup>7</sup>.

The number of graduates with tertiary education has more than doubled in the past 20 years; see Figure 3. While still low, it is at least comparable with international standards.

Female participation in the labour force increased significantly, despite being one of the lowest rates among developed countries. The Italian economic system, unfortunately, seemed unable to absorb this new supply of human capital, a situation worsened by the Great Recession.



**Figure 3: Educational attainment**

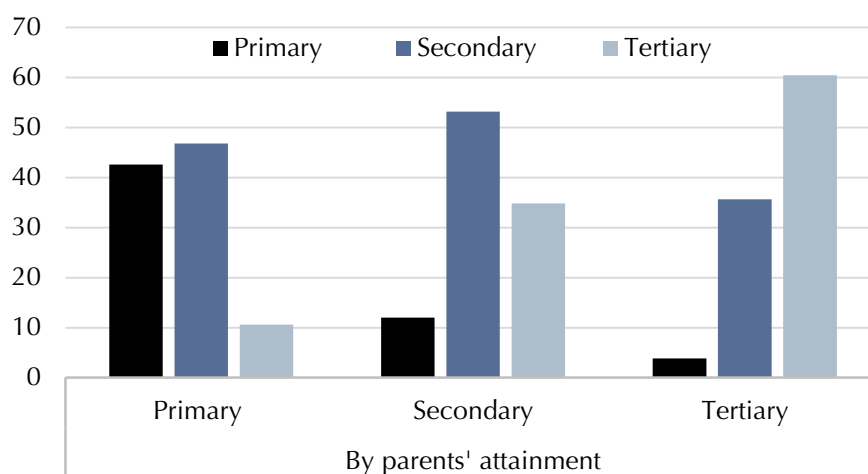
The percentage of the Italian population (25-64 yrs.) with a tertiary degree, compared to the EU-average (the 22 members of the OECD) Source: OECD, educational attainment and labour-force status.

Among those who attain the highest levels of education, labour prospects are far from optimal: in the last decade, increasing numbers of highly qualified researchers, engineers and medical doctors have moved to other European countries. Brain-drain is not a dead loss *per se*, since the brightest minds are always going to be travelling

<sup>7</sup> Banca d'Italia, “Istruzione e formazione nel sistema produttivo”, in *Relazione Annuale 2011*, p. 128.

toward the frontier of their discipline; but it becomes a problem when the highly qualified migration is not compensated with the ability to attract human capital. Italy invests only 1.3% of GDP in Research and Development (2015); by way of comparison, the EU-28 average investment is 2.3%, Germany invests 2.9%, France 2.3% and Austria 3.7%. While this difference is also due to low public investment (0.18% compared to the EU-28 average of 0.24%), it is mostly due to low investments in R&D from a fragmented and frail business sector (investing only 0.38% compared to 0.47% in the EU-28)<sup>8</sup>.

From the perspective of social mobility, the Italian educational system is particularly inefficient: both in general terms (producing results that are often below average if compared with international standardised tests) and in terms of inequality and inclusion. Household income and education are strong predictors of the educational outcome of children, see Figure 4. While this is a common situation in most countries, it is worse in Italy. An early choice for an educational track (i.e., at age 14) quite often limits the future level of education and career path.



**Figure 4: Educational attainment by parental attainment**

Source: Istat, Rilevazione sulle forze di lavoro

Teoldi (2013) measures the wage difference between the average population and the 30-39 year-old age group—those who have finished education and training and who, being fully employable and carriers of increased human capital accumulation, should thus be enjoying a premium in a flourishing economy. Those born in 1947, and thus entering their thirties in 1977, used to earn about 10% more than the average salary. This premium was already reduced to 3% for those in their 30s in 1984, and is close to zero for those joining the age group in 1991. After that, this gap collapses:

<sup>8</sup> Eurostat, Research and development expenditure, by sectors of performance, % of GDP, code: tsc00001

those born in 1980 tend to earn, on average, 12% less than their counterparts in the general population<sup>9</sup>.

### Generational issues

Before the recession of 1992-93, 65% of the Italian population lived in families whose income came mostly (about two-thirds) from labour; in 1995, this was only around 50%. The proportion increased to 55% by 2008, only to collapse again because of the Great Recession. On the other hand, the share of families mainly living on pension income grew constantly— from 12% in 1997 to 18% in 2014. It is still growing.

Since the mid-1990s, the gap between the disposable income of families whose breadwinner is an employed worker and those whose breadwinner is self-employed grew (while it declined after the Great Recession), and both groups now have a lower welfare level compared to families whose income comes from pensions.

The structure of the Italian economy and welfare system features a significant generational divide. Older workers still have strong legal protection for their jobs and enjoy a generous welfare system, while younger workers have little job protection and can expect far lower retirement benefits in the future. Thus, age plays an important role, leading to strong intergenerational imbalances in an institutional framework that focuses more on protecting the insiders than on creating opportunities for newcomers.

The pension system has been reformed many times through the years, but is still very expensive for the Italian economy, taking the lion's share of public expenditure. Italy spends 15.8% of GDP in pensions (the OECD average is 7.9%<sup>10</sup>). Over 77% of public social spending is for people older than 65 years. Only 3% of total expenditure ends up with families and children (Denmark, for instance, spends 8.3% and Ireland 6.6%) and only 2.4% goes to unemployment policies (4% in Germany, 4.6% in Spain, 6.3% in Ireland)<sup>11</sup>. Still, Italy has a total public expenditure, tax levels and pension contribution rates that exceed the EU average.

Younger generations have reacted to a lack of opportunities, employment and housing by delaying the age when they leave their family. Some years ago, a prominent member of government called them “Bamboccioni” (big babies): those who prefer to stay home rather than build their own family. Between the 80s and the beginning of the millennium, the share of the population aged 25-34 living with their parents doubled, reaching 50% in the aftermath of the financial crisis (30% for those aged 30-34). Those who stayed home benefited from the higher wealth from their

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<sup>9</sup> Teoldi, F., “La crisi pagata dai trentenni”, *La Voce*, 2013

<http://www.lavoce.info/archives/14844/chi-paga-la-crisi-30-40-anni/>

<sup>10</sup> OECD, Pensions at a glance 2015, <http://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm>

<sup>11</sup> Balduzzi, G., “Tutto agli anziani, niente ai giovani: la spesa sociale italiana è la più ingiusta d’Europa”, *Linkiesta*, 11 July 2017, <http://www.linkiesta.it/it/article/2017/07/11/tutto-agli-anziani-niente-ai-giovani-la-spesa-sociale-italiana-e-la-pi/34830/>

families, compared to those who built a family. Today in Italy the highest predictor of poverty in a family is the age of the breadwinner: for the under-30s, one family out of three is low-income—in the 80s it used to be one family out of ten<sup>12</sup>.

### **Regional differences**

The geographical distribution of households follows a traditional divide between North and South, with an above-average presence of high-income groups in the Centre-North and an overrepresentation of fragile, at-risk-of-poverty groups in the South.

Istat 2017 attempts to deepen the stratification of the middle class by providing new classifications based on income, working status and age. They find a large overlap between the traditional classification of middle class and the groups of “Clerks’ households” and “Retired blue-collar workers”. Traditional provincial households largely overlap with the lower middle class, while the “silver pension” group (whose main breadwinner is retired from work with a generous pension) is in the upper-middle class. Data about urbanisation show that there is not a single middle class, but several— and each distributed spatially according to different preferences for more or less urbanisation.

### **Household composition**

In the 1980s, 80% of middle-class families had breadwinners who were employed or self-employed, and thus more exposed to cyclical fluctuations. Today, working families represent only 70% of middle class, while income from pensions, which is isolated from the economic situation in the Italian pension system, has increased up to 20%<sup>13</sup>. This means that the type of households that are part of the middle class, rather than their size and income, has changed. It also explains why the middle class perceives itself as declining, and why it seems to lack the entrepreneurial spirit needed to assess and change this situation.

Family choices of the average Italian reflect pessimism about the future. The fertility rate is very low (1.35), 27% of Italian families have no children, and 20% have only one child. Looking at the groups that can be considered middle- and upper-middle class (according to new Istat stratification), we see that the main demographic characteristic of the middle class is old age. All but “traditional provincial families” have, on average, one child or no children at all. Table 1 shows the average age and family size of households in middle-class groups.

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<sup>12</sup> Banca d’Italia, “I bilanci delle famiglie italiane: uno sguardo di lungo periodo”, in *Relazione Annuale* 2015.

<sup>13</sup> Banca d’Italia, “I bilanci delle famiglie italiane: uno sguardo di lungo periodo”, in *Relazione Annuale* 2015.

**Table 1: Household structure in middle-class groups**Source: Istat, Rilevazione sulle forze di lavoro, in *Rapporto Annuale 2017*

	Average age	Family size
Traditional provincial households	54	4.3
Retired blue-collar households	72	1.8
Clerks' households	47	2.7
Silver pensioners	64	2.2

### 3. Household perceptions

While Italy's middle class has not shrunk significantly in the last decade (it remains around 60% of the population; see the overview in Chapter 2), the way Italians perceive their socioeconomic status has been severely affected by the Great Recession. According to Ilvo Diamanti, there is a strong feeling in Italy that the social elevator is no longer rising— and that perception of reality “is as difficult to change as reality itself”<sup>14</sup>.

In 2016, the Observatory of Human Capital from Demos & Pi surveyed a representative sample of Italians, asking them: “To which social class, in your opinion, does your family belong today?” Results are shown in Figure 5. The share of Italians perceiving themselves as middle class declined significantly after the financial crisis of 2008, just to be at a similarly low level during the European crisis of 2011, and to further decline in 2016, despite a small recovery of the Italian economy<sup>15</sup>.

This collapse of middle-class self-perception in the last ten years is a process opposite to, but strictly interrelated with, what happened to the Italian middle class in the previous decades—which the Italian Sociologist De Rita defined as “cetomedizzazione”<sup>16</sup>. Roughly translatable as “middleclassization”, this was a process that drove the emergence of a middle class proud of its status and lifestyle without being “really bourgeois”. Much sociological literature assigns to the bourgeoisie the task of entrepreneurial change, in terms both of economic innovation and production of a political class apt to manage change. In Italy, this was clearly not the case.

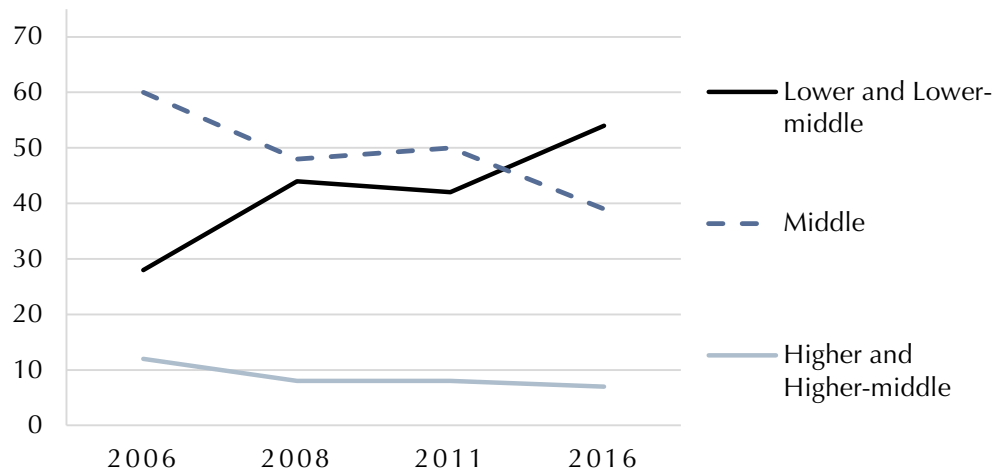
Over the last decades, the wealth of the Italian middle class was built mostly on government public expenses, rather than entrepreneurship and innovation. Democrazia Cristiana—a centre-right conservative party that ruled over Italy for nearly half a century, ruling out more extreme parties—built up their consensus by distributing privileges to interest groups, such as cooperatives and unions, and hiring

<sup>14</sup> Ilvo Diamanti, “L'ascensore sociale funziona al contrario: ora il ceto medio si sente classe operaia”, *La Repubblica*, 25 May 2015.

<sup>15</sup> Data from the report “Osservatorio Capitale Sociale”, Demos & Pi, available at <http://www.demos.it/osservatorio.php>

<sup>16</sup> De Rita, G. & Galdo A., *L'eclissi della borghesia*, Bari: Laterza, 2011.

an unsustainable number of workers in the public sector. This led to a general increase of welfare, with the unfortunate effect of impeding more sustainable, long-term growth. As a result, the Italian middle class at present is mostly made of people with public jobs—jobs shielded from competition—and retired people.



**Figure 5: Perceived class identity over time**

Source: Demos & Pi, Osservatorio Capitale Sociale

According to De Rita, the fact that political elites created the illusion of wealth from public spending (in order to gain consensus) prevented the emergence of a true bourgeoisie that was able to produce innovation in the economic as well as the political system. This lack of leadership was destined to stagnate the country for many decades.

The current average middle-class voter feels betrayed by the government, which was unable to maintain the promises of continuously improved standards of living, made during the expansionary years of public debt. Later on, the government, instead of enjoying the benefits from joining the EU for restructuring the Italian economy, denied the severity of the problems and dragged them in the next century.

Yet *cetomedizzazione*, i.e. a process of becoming middle class without becoming a dynamic bourgeoisie, was unsustainable, and today we face the opposite process of *proletarianisation*. Those who would normally be filed under “middle class” (regarding job occupation, income, education, etc.) perceive themselves now to be lower class (i.e. as a sort of new proletariat).

In the aftermath of the crisis, the average Italian voter started believing that the government— while far from being fiscally responsible— was in fact imposing unnecessarily austere policies, and irresponsibly impoverishing the new generations. They resented that there were no more resources available and the fact, obvious as it may be, that they could no longer live above their own possibilities. Voters blamed

austerity for their dire economic conditions, while austerity was actually the effect (not the cause) of years of reckless expansion by debit now presenting the bill.

Younger generations have a very clear perception of how serious the situation is, for they simply cannot start and raise a family. Many of them are outside the job market, and still rely on their families to make it to the end of the month. Their families, in turn, blame the government for not providing a fulfilling life to their children. Their parents grew up with the myth of “posto fisso” (i.e. a tenure job either in the public and private sector, where being fired is so costly for a firm to be practically impossible). The cultural attitude of “posto fisso” is so deeply rooted that they are now expecting for their children the very privileges they consider so obvious. Their children, in other words, are *entitled* to those privileges, the absence of which is perceived as theft.

Indeed, the economic conditions enjoyed by previous generations are not available today. Welfare has become less generous, and the prospects for a satisfactory job are few, both in terms of income and in terms of over-qualification—the chance to find a job that matches the degrees they have earned with difficulty (and most of their parents did not have or need in order to attain job security).

As a result, while on average the economic conditions of the middle class are not worse than they used to be, comparison with the previous generation creates an illusion of great poverty.

#### 4. Political representation

As for the political landscape, the post-crisis era saw the growth of populist movements, such as 5 Stars Movement, which now heads surveys about 2018 political elections, and already governs several major cities. In addition, Lega Nord, which originally was a party pro-fiscal responsibility and federalism, became increasingly populist, suggesting nationalistic economic policies, the exit from the Eurozone, and often contributing with xenophobic remarks to the public discussion.

Traditionally, the average middle-class Italian voter was the “responsible father of the family” looking for respectable elites; their electoral choices could be placed in the “median” area of a spatial model throughout all the transformations of the Italian political system.

Ballarino et al. (2009) assesses the relationship between vote and social classes in Italy through the decades 1972-2006, noting that there is no strong relationship between social class and parties— at least not in a traditional way. The two mainstream parties, DC, the Christian Democrats, as well as PSI, the Socialists, used to be “inter-class” parties, meaning there was no strict correspondence between social status and vote—MSI (far right) and the communist party, on the other hand, were more attractive to working class and low income, but also to the high income and high



education groups. When the political landscape changed– both in terms of electoral and party system– a similar inter-classist structure emerged, with white-collar and urban middle-class equally divided among the two mainstream parties, and lower middle class as well as working class voting for more extreme parties<sup>17</sup>.

Within this pattern of voting behaviour, the fact that the middle class sees itself in decline and going through a process of becoming “proletarian”, is dangerous– since it is likely to provoke further shifts toward the extremes of the political orientation. And this is a rather accurate description of current trends.

This changing attitude is described by the political philosopher Jason Brennan as a movement from ‘hobbits’ to ‘hooligans’. Drawing from a wide range of empirical literature on voters’ knowledge and behaviour, Brennan divides the electorate into three groups: hobbits, hooligans and Vulcans. Hobbits are those who mostly do not care about politics, and prefer to go on with their ordinary life without giving much thought to the currently debated issues. Hooligans are those whose interest in politics closely resembles supporting a football team: they are emotionally involved, actively engaged and very informed. Unfortunately, because of their emotional involvement, they process information in a more biased way, and refute data and arguments supporting views different from their own. Finally, Vulcans are those who never adhere to an opinion or pick a side without having accurately weighed all the proofs and arguments, and they are more than willing to change their mind if evidence and logic so require<sup>18</sup>. Democracy is portrayed as the rule of Vulcans, but voters are mostly hobbits or hooligans.

In Brennan’s view, the rise of populist parties is due to the increase in the proportion of hooligans. In Italy, the rest of the voters could be seen as ‘hobbits’: absorbed by their daily life, with little or no interest in politics. This applied to the Italian middle class as well, which is partly the reason why De Rita criticised them: for being middle class without being bourgeois, unable to produce a ruling class.

Today, hobbits are becoming hooligans: they are more interested in politics, but also more biased. They mostly get their information from meme and political declarations from their favourite party, read “party-friendly” press, and live in a social-media bubble which tends to reinforce their biases. Many believe the Italian economy would benefit from leaving the single currency and restoring the Lira. Only 29% of Italians in 2016 trusted the European Union Institutions, with trust declining by 22 %-points since 2010. The percentage of Italians claiming that the country should leave the Eurozone was 33% in 2015 and 34% in 2016: a change of opinion that appears to be positively correlated with the rise in popularity of populist parties.

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<sup>17</sup> Ballarino, G., Schadee, H., Vezzoni, C., “Classe sociale e voto in Italia, 1972-2006” *Rivista italiana di scienza politica*, vol. 2, 2009.

<sup>18</sup> Brennan, J., *Against Democracy*, Princeton University Press, 2016.

The Italian electorate is used to living with contradictions: in 2016, only 69% of Italians thought that democracy is the best form of government— declining from 74% in 2004— with a perplexing 17% considering an autocratic option as viable, and 14% indifferent between autocracy and democracy. But 48% thinks that democracy could work without a basic institution as political parties. The percentage of citizens satisfied with public schools and healthcare in 2016 amounted to 42%, while those satisfied with the private alternative of the same services were 46%. Satisfaction is even lower for public transportation (26%) and railroads (28%). However, only 15% of the surveyed Italians were willing to accept a larger role for private systems in sectors where the public did not meet their needs. 40% of Italians in 2016 considered migrants to be a danger for the country, while only 33% believed that people in general could be trusted<sup>19</sup>.

## 5. Globalisation, technology and migration

The lack of investment in R&D and the inability to attract foreign human capital both reflect an economic system that fails to meet the challenges of global competition and the opportunities of automation. It is a society that fails to provide economic opportunities to its younger members.

Immigration is an issue deeply felt by the Italian low-income class, and by that portion of the middle class which perceive themselves as lower class. Based on a yearly observatory, “Gli italiani e lo stato”, from 2015 to 2016 the number of citizens answering “I believe that immigrants are a danger for public order and people’s safety” rose from 28% to 40%<sup>20</sup>. Clearly, these results reflect the migrant crisis in the Mediterranean: Italy is one of the countries receiving the highest number of migrants.

There is a political margin in Brussels<sup>21</sup> for tackling this— for Italians— pressing issue; yet, the Italian political class is mostly using immigration as a scarecrow to polarise the vote. Public expenditures on migrants are routinely debated as a major component of public spending: an issue framed, often violently, as “stealing” from Italian citizens and stripping them of their right to welfare. Italy does not excel at limiting public expenditures, and apparently migration is no exception: the Italian government has estimated that the public expense— net of EU contributions— devolved to the refugee

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<sup>19</sup> Data from the yearly report “Gli Italiani e lo Stato”, Demos & Pi; Osservatorio di Pavia; Fondazione Unipolis, available at <http://www.demos.it/rapporto.php>.

<sup>20</sup> Demos & Pi, “Gli Italiani e lo Stato”, 2016.

<sup>21</sup> European Commission - Speech, *President Jean-Claude Juncker’s State of the Union Address 2017*, Brussels, 13 September 2017, [http://europa.eu/rapid/press-release\\_SPEECH-17-3165\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm).

crisis will amount to 42 billion euros in 2017<sup>22</sup>. This is 0.5% of the €830 billion of the Italian government budget.

The refugee crisis hides the fact that Italy is not good at attracting qualified migrants. Economically speaking, immigration could benefit Italy, with its low birth rate and a welfare system skewed towards older generations. As such, Italy should be working closely with the European Union for the opening of legal pathways, and should engage in brain-competition regional policies—for instance, by making it easier for skilled migrants to join the European economy with a Blue Card<sup>23</sup>. Such immigration could also help by injecting in the existing middle-class a taste of migrants' entrepreneurial spirit, a sense of risk-seeking and the value of hard work.

Another potential benefit of immigration is the positive effect on rent-seeking dynamics and unsustainable public expenditures. Alesina and Glaeser (2004) suggest that increased heterogeneity in the population (such as the American population) reduces public expenditure because the existing population will be less willing to have a large welfare state once migrants, who typically display a lower-income, are entitled to more benefits<sup>24</sup>. Razin, Sadka and Swagel (2002) study 11 European countries from 1974 to 1992 with a median voter model, and find that a higher share of low-education immigrants in the population leads to lower social transfers and lower rates of taxation on labour<sup>25</sup>. Thus, immigration can be a driver for reforms in public spending, welfare and the labour market.

Globalisation and technological innovation will require better education and a more flexible labour market. But most of all, they will require a more competitive market. Structural reforms will be needed to meet the new requirements of the job market.

One of these changes will very likely concern the fixed nature of the job, which has been enshrined in the Italian middle-class culture during decades of public sector growth. The culture of the "posto fisso" (fixed assignment) is still widespread among the population: any deviation is perceived as a form of injustice, if not exploitation. Yet the "golden times" of "posto fisso" will never return.

According to a recent study on the "Future of Work" by the International Monetary Fund, the more automated and globalised the job market will be, the more human work will consist of single tasks and "gigs" rather than stable jobs. Workers will shift

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<sup>22</sup> Ministero dell'Economia e delle Finanze, *Documento economia e finanza (DEF 2017)*, p. 45, available at [http://www.mef.gov.it/en/focus/article\\_0031.html](http://www.mef.gov.it/en/focus/article_0031.html)

<sup>23</sup> Reiner, C. "Brain competition policy as a new paradigm of regional policy: A European perspective", *Regional Science*, Volume 89, Issue 2, 2010, pp. 449-461.

<sup>24</sup> Alesina, A. F. & Glaeser, E. L., *Fighting poverty in the US and Europe*. New York: Oxford University Press. 2004

<sup>25</sup> Razin, A., Sadka, E. & Swagel, P. "Tax burden and migration: A political economy theory and evidence", *Journal of Public Economics*, 85, 2002, pp.167-190.

from being employed for one or more firms to having different jobs and thus different sources of income.

The design and funding of tomorrow's social safety net must be adapted for a workforce that is increasingly independent"<sup>26</sup>. Italy has a very high protection of full-time workers, and is thus in a particularly disadvantaged position to face the challenges of crowd-based capitalism, in which individuals earn a living as independent contractors in large work-sharing platforms. Popular sharing-economy platforms such as Uber and AirBnB have already been targeted by recent legislatures, under the banner of "unfair competition" toward the traditional industries they were disrupting<sup>27</sup>. In this way, the creation of the new jobs– Schumpeter's "creative destruction"– is made difficult by state's barriers. This increases intergenerational imbalances, since it protects "incumbents" from the competition of young people who could benefit more from the gig economy.

The Italian middle class is suffering from a stagnant economy, with policies that prevent dynamism and innovation, penalise the young generation and create a diffuse feeling of decline.

## 6. Conclusion

The income of the Italian middle class has remained largely the same over decades of crises. At the same time, the source of this income has changed relevantly: compared to the late 1970s, more income is obtained from pensions and less from labour. Likewise, the Italian expenditure on pensions is now larger than ever. This, combined with the recent sovereign debt crisis, has contributed to the negative way in which middle-class households perceive themselves. After the 2011 crisis and the ensuing years of austerity, the conditions of the job market saw a sharp decline: unemployment spiked, as did discontent.

On the one hand, the older members of the middle class began to worry about their offspring, whom they realised could achieve no job security and a pension program far less generous. On the other hand, younger generations faced worse career prospects and dramatic difficulty in starting and raising a family. Consequently, scepticism toward the political class, and the EU in particular, peaked. In such conditions, the Italian middle class has been unable to fulfil its entrepreneurial role as engine of growth– and least of all that of "cradle" of a solid and culturally sound political class.

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<sup>26</sup> Sundararajan, *The Future of Work, Finance & Development*, 2017, Vol. 54, No. 2

<sup>27</sup> Del Prato, F., "AirBnB: regolare poco per regolare bene" *IBL focus* 262, March 2016 <http://www.brunoleoni.it/airbnb-regolare-poco-per-regolare-bene>.

In this context, the emerging political ruling class was unable to take a necessary change of direction: from excessive reliance on public expenditure and unsustainable distribution of jobs in the public sector, to a radical revision of the job market, liberalisation of professions and simplification of bureaucracy. As a matter of fact, this was hardly the case for Italy. Due to the lack of a mature middle class, Italian politics began to shift toward more populist, scientifically unsound, and sometimes xenophobic views. Many Italians suddenly took an interest in politics without having a real grasp of the causes of the crisis, let alone an idea of the reforms necessary to restore growth and recover the country.

In this scenario, the European Union could play an important role by providing the correct guidelines for reforms, by putting a constraint to excessive public expenditure in Italy and by encouraging the introduction of a more sustainable system of welfare, mindful of the young (and future) generations and of those who will contribute to Italy's welfare in the future.

# Chapter 9: The Middle Class in the Netherlands

**Arjen Siegmann**

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The Netherlands is a small country in terms of population, but punches above its weight in economic terms, being the 18<sup>th</sup> economy of the world in terms of GDP<sup>1</sup>. Key features of the economy are trade, agricultural exports and a sizeable service sector. A large financial sector contributed to economic growth prior to 2008, but was also a detrimental factor in the subsequent recession.

Typical features of the Dutch economy are the large multinational corporations, constructive cooperation between unions, employers and the government, low-cost access to education, a high level of employment protection and comprehensive social security provisions. These features have enabled the small open economy of the Netherlands to weather the changing tides of the global economy.

Based on net-equivalised incomes, the Dutch middle class is sizeable, comprising around 80% of the population. The Luxembourg Income Study puts the size of the Dutch middle-income class<sup>2</sup> as the third-largest in the world; see New York Times (2016). Although the Dutch middle class has been relatively stable since 1990, the size of the middle class based on *gross incomes* is steadily declining, mirrored by an equally large increase in the size of the top-income class. Redistributive policies (taxes and social transfers) together with changes differences in household sizes have shifted a substantial part of the top-income households back to the middle class.

Household incomes of the middle-income class have been affected by the recession, a drop in house prices and fiscal tightening in the aftermath of the 2008/9 financial crisis. Peak unemployment was 7.9% in February 2014, and house prices dropped by 20%, on average, between the peak in 2008 and the lowest level in 2013. To remain within the 3% deficit limit of the Stability and Growth Pact, the government implemented fiscal measures in the years 2011-2016, amounting to restructurings of around €50 bln<sup>3</sup>. This has been both a result and a driver of low economic growth, which explains why the real median income growth between 2007 and 2013 was a mere 0.2%, as can be seen in the overview of Chapter 2.

## 1. The income perspective

Figure 1, taken from Salverda (2016), shows the average gross (market) income in the middle of each decile of the household income distribution. Overall, the data from

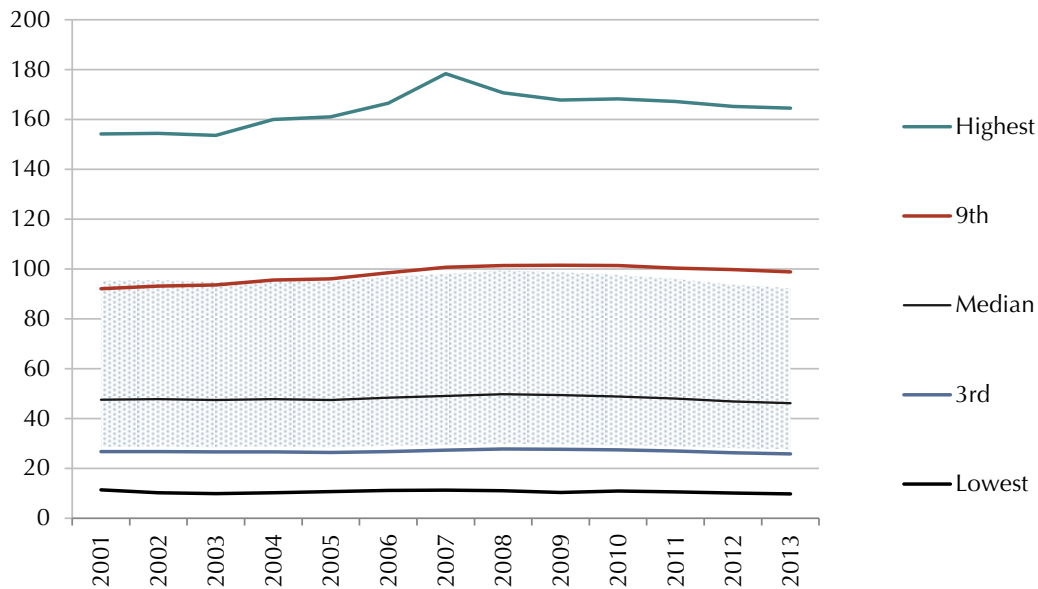
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<sup>1</sup> Based on Worldbank data on GDP in 2016, in US-dollars and market prices.

<sup>2</sup> As in other chapters, we use the terms middle-income class and middle class interchangeably.

<sup>3</sup> see Algemene Rekenkamer (2016).

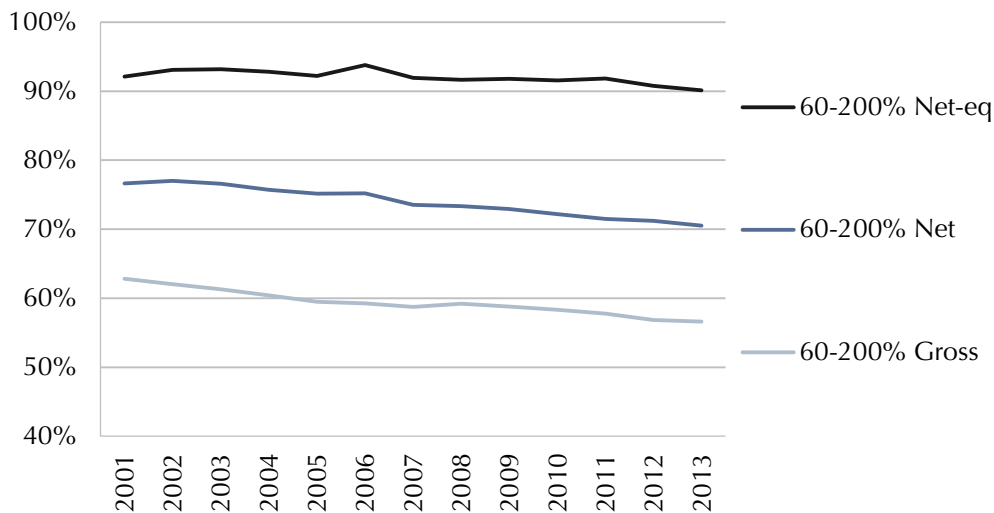
2001 onwards shows a pattern of rising incomes for the 9<sup>th</sup> and 10<sup>th</sup> deciles (the top two lines) and stagnation for the middle-income class (the shaded area). Besides the spike for the highest income in 2007 (due to a one-off tax measure affecting the highest 1% of income), the rise in incomes for the upper deciles since 2001 seems modest.



**Figure 1: Average gross-equivalised household incomes per decile**

The lines represent the average income for selected gross-equivalised household income deciles (Highest is 10, lowest is 1). The shaded area covers the size of the middle-income class based on net-equivalized income between 60% and 200% of the median. The data is from the national tax administration, in Euros of 2013. Source: Salverda (2016).

The impact of taxes and equalisation is shown in Figure 2, also taken from Salverda (2016). Figure 2 shows the shares of persons in income classes, separate for net, gross and equalised incomes. The share of households with more than twice the median income has steadily increased. In combination with the rising top incomes (Figure 1), this implies that the highest income class has grown both in size and in average income. At the same time, there is an almost continuous decline in the 60-200% population share since 1990. Correcting for taxes changes the size of the middle class based on gross incomes, but does not mitigate the declining trend.



**Figure 2: Class shares by income measure 1990-2013**

Percentage of persons that are middle class (60-200% of the median) for three different measures of household income. Gross is gross income, Net is net income, Net-eq is household income that is net of taxes and equivalised, i.e., normalized based on family composition (size and ages) Source: Salverda (2016).

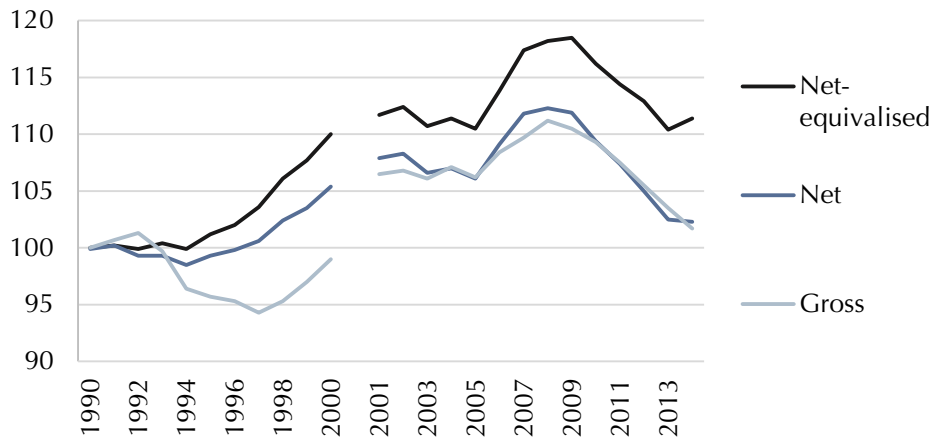
Equivalisation (taking into account the natural economies of scale in a household) changes the class shares considerably. It brings more than 90% of persons within 60% to 200% of the median. Moreover, the shares of middle-income persons appears stable since 1990. Thus, it must be the case that household sizes are significantly different for the different income classes. Indeed, per net-income class, the household size for middle-income earners declines from 2.6 in 1990 to 2.3 in 2013, while for the top-class households, household size is relatively stable at 3.3 in 2013; see Salverda and De Jong (2017, Figure 7).

According to Salverda, the top 10% of highest-earning households increased in household size from 2.5 in 1990 to 3.1 in 2013. For the middle-income class, the household size remained fairly constant at 2.2. Due to the equivalisation, 18% of persons who would otherwise be in the top-income class shift to the middle class.

The larger household sizes in the top- and middle-income classes (relative to the lower class) could be a reflection of the increasing efforts necessary for maintaining a large household, but also could simply be the result of simply having more single-earner households in the lower class of incomes.

A drawback of great stability could be a decline in average income growth. A 2016 McKinsey report suggests that median disposable incomes declined between 2005 and 2014; see McKinsey (2016). Salverda and De Jong (2017) have a similar finding for net incomes; see Figure 3.





**Figure 3: Median household income 1990 – 2014**

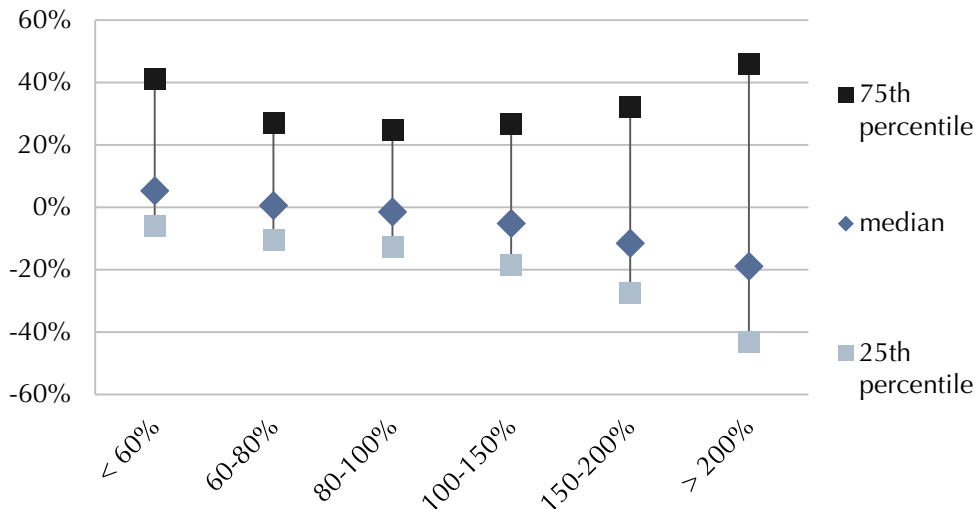
The dotted line is gross household income, the dashed line is net household income, the solid line is net-equivalised (i.e., corrected for household composition). The levels are normalized at 100 for 1990. The break around 2001 is due to definition changes in the source data. Source: Salverda and De Jong (2017).

Figure 3 shows a significant net income decline in the period 2008 – 2014, in both gross and net terms. Equivalisation compensates for this to some extent, so that the drop in income on the household level is less drastic.

The stability in disposable income that is observed in Figures 2 and 3 is corroborated by a recent study of the Netherlands Scientific Council for Government Policy; see WRR (2017). It finds a large and stable middle class, based on the definition of net-equivalised income, but indicates a slow decline in income since 2008.

It could be that the median household income is stable over time, but that the income *variation* of individual households is not – and an increase in variation could be indicative of increasing economic uncertainty. Using microdata, De Beer (2017) measures household income changes during four-year periods between 1989 and 2013. He finds a sizeable random component in yearly incomes; see Figure 4.

The spread in purchasing power is U-shaped, with the highest variation for the lowest *and* highest income groups. This is consistent with a large random component in the incomes for some households: in some years the earnings are high and in some they are low, which puts the same household in the <60 bracket in one year and in the >200 bracket in another.



**Figure 4: Spread in income growth per income class 2009-2013**

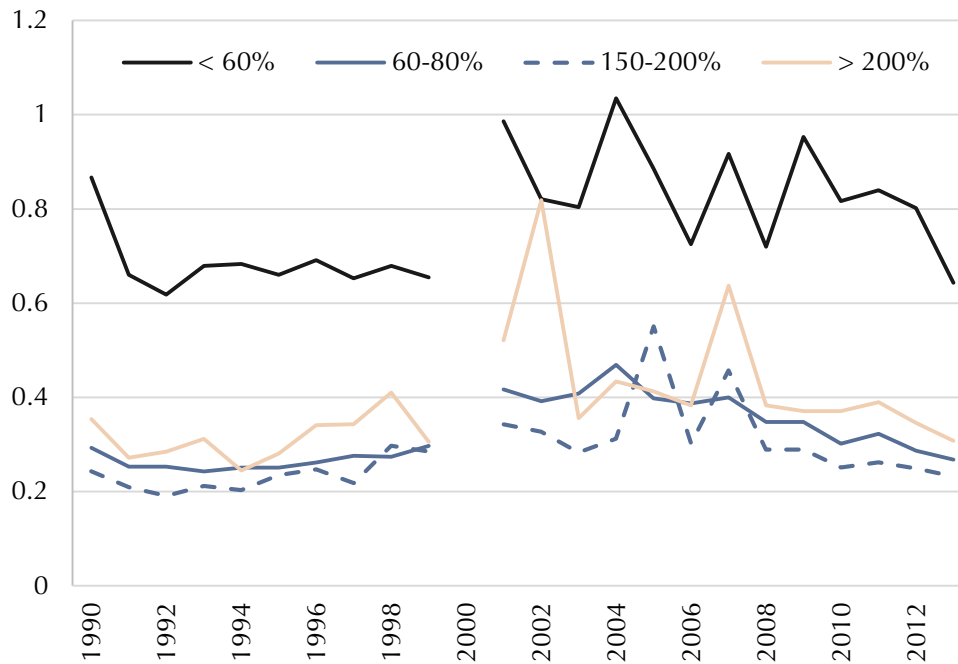
Shown is the growth in net-equivalised income for the 2009-2013 period, for the 25th, 50th (median) and 75th percentile. The income classes on the x-axis are defined relative to the median net-equivalised household income. Source: De Beer (2017, p184), based on microdata from Statistics Netherlands (CBS).

Although the random component is sizeable, there is no pattern of increasing uncertainty over time; see Figure 5. Consistent with a large random component in incomes, the variation in purchasing power is highest for the lowest income class. However, there are no obvious time trends. If anything, the risks seem to be decreasing since 2011. One of the explanations for the low risk in the middle classes is that many of these households are composed of two earners. This mitigates the impact of a change in income of one of the earners. As such, a household is a natural 'hedge' against shocks in labour income.

As a final point on income, we should note that the wealth distribution over the middle-income class is stable as well. The numbers depend on which definition of wealth is taken, but for a number of reasonable choices there are no outsized effects over income class or time.

In all, the changes in size and income of the middle class resemble the geography of the Netherlands: largely flat. However, just like the earthquakes in the Dutch province of Groningen<sup>4</sup>, there have been slow tectonic shifts in the distribution of market incomes. The resulting stability is the result of taxation, social transfers and household composition.

<sup>4</sup> In the tectonically quiet Northern Netherlands, earthquakes have been occurring since 1986, the result of gas production and the depletion of the Groningen gas field.



**Figure 5: Standard deviation of yearly change in purchasing power, per income class.**

Source: De Beer (2017, p187), based on microdata from Statistics Netherlands (CBS).

## 2. Non-income-related perspectives

### The affordability of housing

The CPB (2016) analysed the affordability of housing for middle-income groups, defined as households with an income between the 49<sup>th</sup> and 68<sup>th</sup> percentile. For the period 1998-2015, it is observed that the share of middle incomes owning their own home increased from 55% to 70%. At the same time, the share of households with a rent-controlled house went down from 40% to 25%.

The cost of housing turns out to be quite stable, between 15 and 25% of disposable household income for owning a house and for the regulated rental sector. An exception is formed by the 5% of middle incomes who rent in the liberalized rental sector and pay between 30 and 35% of disposable income in rent. Engbersen and Snel (2017) find an increase in housing costs, but the relative increase is similar across income quintiles.

House prices were both consequence and driver of the economic recessions in the Netherlands. Economic growth, liberal lending policies by banks and strong creditor protection pushed housing debt to new heights, right up to the start of the global financial crisis of 2008/2009. In the aftermath of the crisis, average house prices dropped sharply between 2010 and 2015, which at the lowest point were 20% lower than the 2007 level. The housing market itself became a drag on economic growth, as homeowners reduced consumption and the number of transactions almost halved.

The Rutte government (2012-2017) introduced regulations, phased in from 106% to 100% percent in 2018, that put a maximum on the loan-to-value ratio for new mortgages. In addition, the tax-deductibility of mortgage interest payments has been slated for gradual reduction: the maximum tax rate at which interest rate costs can be deducted has been reduced by 0.5 %-points per year, from 52% in 2012 to 38% in 2040. Further measures to abolish deductibility cannot be ruled out, and could put downward pressure on house prices in the medium term. They could also impact affordability if homeowners are reluctant to sell at prices lower than the original purchase price; see Genesove and Mayer (2001).

Rising prices in urban areas, such as the cities of Amsterdam, Rotterdam, Utrecht and The Hague make it harder for middle-income buyers to afford housing. The Netherlands Central Bank (DNB) considers the housing markets in these cities as overheated; see Hekwolter of Hekhuis et al. (2017). They expect the trend of rising prices to continue, due to the attraction large cities have on businesses, young professionals and tourists, coupled with the low rate of new construction of residential real estate.

### **Family stress**

Analysing household income data, Salverda and De Jong (2014) find that, now that the breadwinner-model has gone out of fashion, middle-class households are almost by definition two-earner households. They 'run harder' in the labour market, but because they also have relatively larger households, they do not have a better position in the distribution of living standards.

Over time, more highly educated employees seem to work more hours, as found for the US by Kuhn and Lozano (2008) and for developed countries (including the Netherlands) by Burger (2015). Moreover, a large fraction of Dutch employees (14.3% in 2016, the fourth largest among the EU-28 countries) has a contract with a limited duration<sup>5</sup>. It is possible that this induces family stress for households who have children and are simultaneously managing their careers.

A direct measure of family stress would be the use of antidepressants. This is low in the Netherlands; see OECD (2014a). Moreover, the percentage of people reporting job strain in 2010 is 19%, well below the EU-10 average of 26%. Although stress in the workplace is a serious issue, it does not seem to be higher in the Netherlands than elsewhere.

### **The labour market**

Several recent studies have pointed out the impact of increasing flexibility in the labour market that has occurred simultaneously with the rise of self-employed workers (the so-called ZZP-worker: self-employed without employees). According to

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<sup>5</sup> See Eurostat dataset *lfsi\_pt\_a*. Statistics Netherlands puts this number at 25%.

CPB (2016), this has been a trend whereby high-earners use the ZZP status to evade social security contributions, while low-earners are forced to work as ZZP workers by employers at the risk of having no work at all. These two forms of motivation are seen as undesirable; the incoming government is expected to propose regulations to make the ZZP status more restrictive or ensure that employee insurance schemes are compulsory for ZZP workers (to discourage employers from making unfair use of the law).

A second trend is that of job polarisation. The increased use of technology in the workplace and automation have impacted the job market across all income classes—but not in the same way for each type of employee. Goos et al. (2014) document a pattern of ‘job polarisation’ whereby employment for low-paid and high-paid work increases, with a decline in employment for jobs in the middle of the income distribution. This is a global trend affecting the middle class to the extent that middle-class workers hold jobs that have either disappeared through automation or risk being automated in the future. This poses a challenge for many middle-class households.

The pattern of job polarisation in the Netherlands is quite similar to that of the US; see Michaels et al. (2014). Between 1980 and 2014, the share in the wage bill of middle-educated workers has decreased and the premium for high-skilled work has increased, mostly due to the effect of ICT growth. However, the effects are modest compared to other European countries. Akcomak et al. (2011) suggest that the loss of jobs to outsourcing and automation in the Netherlands is modest, due to the effective restructuring of employment to clusters of connected activities that are highly productive. In this way, technology and automation create opportunities for middle-class employment instead of diminishing it.

### **Social mobility**

The Dutch education system is one of the drivers of opportunities for middle-class households. Enrolment in vocational education is above the OECD average, and labour market perspectives for young people are positive; see OECD (2014b). On the cost-side, primary and secondary education is practically free (except for contributions to fund school-specific extracurricular activities). The tuition fee for university is €2006 per year in 2017, and students from low-income households receive financial support from the government.

To assess social mobility, Van de Werfhorst and Dronkers (2016) analyse educational outcomes, measuring them against the education of the parents. They confirm the intuition that educational outcomes have become less dependent on the education of the parents, which suggests an improvement in social mobility. However, in relative terms, the relationship between the education of the parents and that of the children has not changed significantly between cohorts born in 1937 and 1987. In other words, the impact of parents on the *relative* position within the birth cohort has not

changed. This is consistent with the estimates of Clark (2014), who, using surname estimates, finds an intergenerational correlation of between 0.7 and 0.9 for all of the societies for which he constructs estimates.

### **Generational issues**

The Dutch population is ageing, with an increasing old-age dependency ratio. There are currently 3 million retirees out of a population of 17 million. Pensioners are excluded from the study of WRR (2017), but Salverda and De Jong (2017) find that the elderly do particularly well: hardly any of the elderly are found at the bottom of the income distribution, and instead are concentrated mostly in the middle class. Moreover, the share of elderly households in the middle class is increasing because very few of them are moving into the top-income class.

Caminada et al. (2017) also note the rise in redistribution due to the increase of pensioners. The Netherlands has a well-funded pension system, and the ageing of society implies that more people are at the receiving end of the retirement system. This should be taken into account when assessing the relative stability of the middle-income class. Omitting the retired households might overstate the share of the middle class over society as a whole.

### **Regional differences**

As in any country, the Netherlands features regional patterns in household income. For 2014, Statistics Netherlands (CBS) provides median equivalised incomes per province, ranging from the lowest (€18,800 in Groningen and €20,000 in Friesland, the two northern provinces) to the highest (€22,800 in Utrecht, a central province). Apart from general regional trends and the regular issues of urbanisation, there is no evidence of shifts in regional trends in middle-class composition.

### **Household composition**

The typical middle-class household is a dual-earner household, since two-earner households are almost by definition no longer found in the lower income class. Household size is an important factor in shaping the size of the middle class in the Netherlands. Based on gross income per person, the middle class is only 70% of the population. When corrections are made for taxes, social transfers and, most importantly, household size, however, the middle class increases to around 80%.

## **3. Household perceptions**

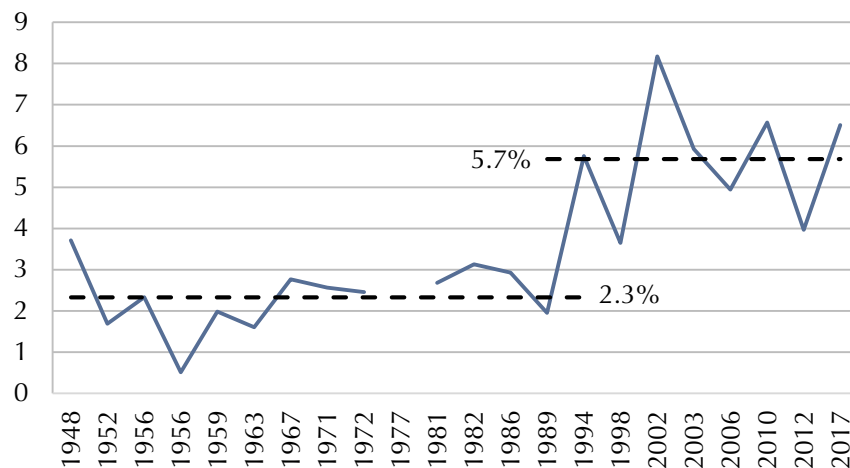
Many households have been affected by the 2009-2015 economic downturn. The high unemployment rate, the abolition of study allowances and stricter rules for mortgages have influenced perceptions of middle class. These measures are perceived as making it harder for the children of middle-income households to achieve the same level of

material well-being as their parents. Based on interviews, Kremer et al. (2017) find that middle class households feel abandoned by the government, which is perceived to neglect the middle class as the real engine of Dutch society.

Another perception is that of future retirement benefits. Although the Dutch pension system is one of the most generous<sup>6</sup>, the low interest rates and the ageing of the population have reduced prospective benefits in most pension plans. Changes in the law for computing pension benefits in the second-pillar, defined-benefit system have undermined trust in the fairness of the system. Both young and old feel short-changed. The minimum retirement age is increasing in a step-wise fashion, and many people with a loose labour relation, such as the self-employed without employees (ZZP), are not in a second-pillar pension plan. The first-pillar pay-as-you-go system provides for a universal basic retirement income— but only at a subsistence level.

#### 4. Political representation

The stability of the middle class, around 80% of households, is not reflected in the electoral patterns, which are far from stable. For national parliamentary elections, Figure 6 below shows the volatility of changes in the vote shares per party since 1952.



**Figure 6: Electoral volatility of Dutch parliamentary elections**

Standard deviation of the percentage change in voting shares between consecutive elections per political party, for national elections of the lower house (“Tweede Kamer”). The break in 1977 is due to the formation of the CDA out of three Christian parties. The dashed lines give the average volatility over the 1948-1989 and 1994-2017 period, respectively.

<sup>6</sup> See OECD (2015, p.30), which shows that future net replacement rates for low- and average income earners for the Netherlands are close to 100%, one of the highest rates of OECD- and G20 countries.

The change in voting shares before 1994 has generally been small, at 2.3% volatility. It more than doubled from 1994 onwards, to on average 5.7%. A telling example is that, two weeks before the elections of 2017, almost three-quarters of voters were still undecided. Hence, the traditional party-based system, with close ties to specific groups in society that shared the same world-view, has changed fundamentally. Before, Christian-democrats, social-democrats and liberals could count on a stable base of voters to support their political programme. But now, each election poses a new challenge to parties, to present their politicians in the best light possible, to make a political programme that addresses the issues of the current moment, and to use all possible means of communication to attract the attention of potential voters.

The electoral volatility implies that the interests of the middle class are not aligned with one or more political parties. On the contrary, it seems that specific middle-class interests are now represented by political parties at the edges of the political spectrum. This development can be tracked by observing the results of three such parties that exemplified electoral trends in the national election of March 2017.

The first example is '50 Plus'. This party campaigns on the perception that retirees and the elderly have been hit the hardest by the crisis. For a single-issue political party, it obtained a surprisingly large share of 3.1% of the votes<sup>7</sup>. To some extent, this is evidence of the rising political clout of the elderly, a group that is increasing in size. At the same time, it contrasts with their actual financial situation, as their share of the middle class, and their income relative to the younger generation, have been increasing since 2006; see Salverda and De Jong (2017).

The second example is 'Denk'. It appeals to the lower middle class with a migration background, and obtained 2.1% share of votes. Second-generation immigrants have a markedly better education than their parents and better job prospects, but feel unfairly treated in the labour market. For example, university graduates with a Turkish or Moroccan surname are less likely to be invited for a job interview— an issue that has received some marked attention in the media. Their political representation suggests an emancipatory tendency and underscores the need for this group to be taken seriously as middle-class participants in society.

The third example is 'PVV', led by Geert Wilders. This party obtained 13.1% of the vote on an anti-immigrant, anti-Islam and anti-Europe programme that appeals to large groups of voters from different backgrounds, education and regions<sup>8</sup>. The political programme is aimed exactly at the middle-class concerns that were mentioned in the previous section, and directs the blame toward immigrants and

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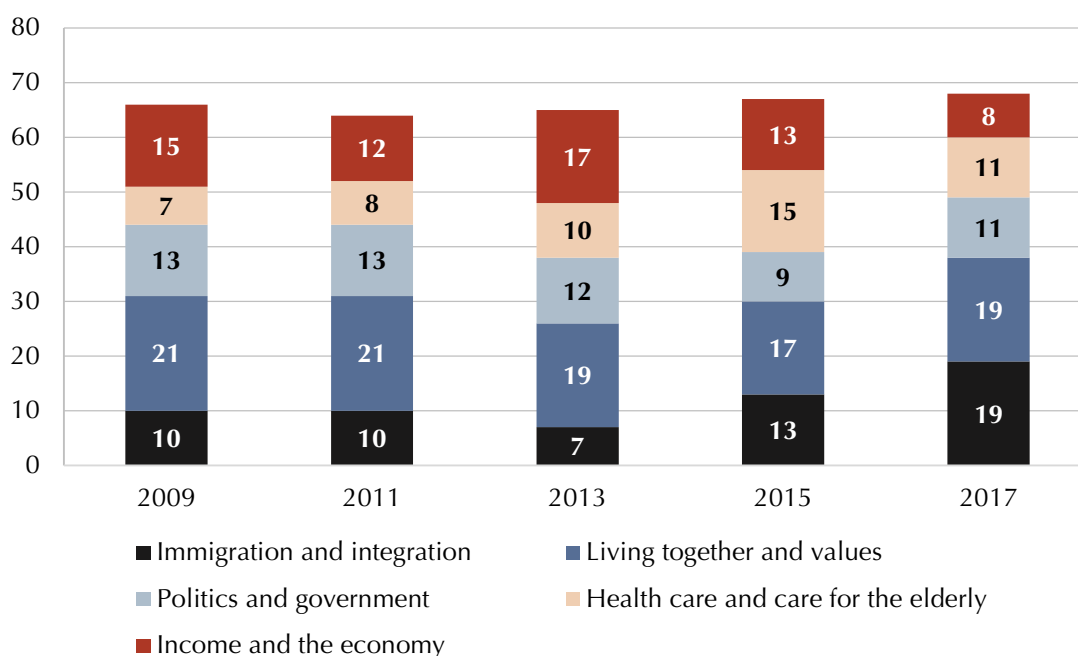
<sup>7</sup> This gives the 50PLUS party four seats in the House of Representatives. The threshold for inclusion in the house is one seat (out of 150), which is 0.7% of the vote.

<sup>8</sup> This is clear from its electoral geography; see <https://www.socialevraagstukken.nl/volendam-tot-vinkeveen-de-electrale-geografie-van-de-pvv/>



Europe. The party platform combines right-wing anti-immigrant populism with social policies that have the promise of stability for large groups of voters.

Framing the position and political outlook of the middle class solely in terms of income suggests that income is the most politically relevant issue. This might not be the case, however. Regardless of whether or not we believe that voters' rationality is a myth (as in Caplan (2011)), people do worry about many other things. According to surveys of the Netherlands Institute for Social Research (SCP), the economy as primary concern peaked only once, in 2013; see Den Ridder et al. (2017). I reproduce the graph in Figure 7 below, which shows that 'samenleven' (living well together) is the issue people reported to be of highest concern throughout the 2008-2017 period. In 2017, immigration and integration became a concern of similar magnitude.



**Figure 7: Stated importance of national issues**

The top-5 issues given by respondents on the question "What do you think the biggest problems are for this country? What do you worry about?" Source: SCP (2017).

## 5. Globalisation, technology and migration

The problems with the Dutch welfare state, initially financed by the natural gas finds in Groningen, became clear in the 1970s and 1980s. Since then, voters have been supportive of reforms that made the labour market more flexible, introduced hurdles for obtaining disability benefits and sickness leave, and increased incentives to obtain paid work. With a well-educated workforce, the Netherlands has managed to prosper economically at the same time that China and India developed. Cross-border trade grew and technology changed the way we work and live. Potential vulnerabilities

remain, however. As in the other chapters of this volume, we turn in this section to look specifically at migration, globalisation and technological change.

The impact of migration will be felt on the housing market and might put pressure on the sustainability of the Dutch social welfare model. Some of the cross-border labour mobility is within the EU and is beneficial for horticulture and agriculture, providing a source of cheap labour. High-skilled immigrants receive favourable tax treatment during the first ten years, which stimulates higher education and high-tech sectors such as those found around the city of Eindhoven (a high-tech cluster of firms that started with spin-offs from Philips) and the IT sector.

Regarding globalisation, the Netherlands continues to reap advantages. As a rule of thumb, half of the variation in Dutch GDP growth can be explained by growth in world trade. The Netherlands has weathered the storm of globalisation partly by recognizing early on that certain industries could not be protected from global competition and had to be given up in a socially friendly way. The last coal mines were closed in 1974 and the large shipyards followed later. These changes were not without pain, but they have prevented a lock-in of people and labour skills in industries that eventually would not be able to compete in the world economy. In agriculture, Dutch farmers and horticulture entrepreneurs are at the forefront of innovation. Thus, in the light of the above, job losses or middle-class decline due to globalisation do not loom large.

Technological change has been one of the reasons that jobs have declined for people with an income in the intermediate skills range. This is the first wave of the digital revolution, whereby jobs that involve repetitive tasks (on paper or in the physical world) have been automated using computer systems and industrial robots. The question is whether a subsequent wave of “robotisation” will lead to a severe decline in middle-income jobs. Susskind and Susskind (2015) document how automation should lead to a new view on the professions, and what this new perspective requires from workers.

A reason to be hopeful regarding jobs is that robotisation brings many new jobs for mechanics in maintenance and operation. Owners of a 3D-printer will recognize the amount of work needed to keep the machine running, adjust settings and fix problems. These types of jobs can be done by people with a secondary vocational training. Given an education system that performs well and offers no substantial barriers to entry, such jobs are not only being created in theory – they are already part of the real world. In addition, the healthcare and education sectors will continue to rely strongly on employees.

## 6. Conclusion

Since early 2000, the Dutch middle class has been stable in terms of size. Given the extent of the worldwide economic recession in 2009 and the sluggish growth afterwards, this stability can be seen as remarkable. At the same time, growth in real disposable household income has been minuscule. Individual households might have seen rising incomes (as in the case of the career path of an employee), but the middle class as a whole is not better-off than the generation of, say, ten years earlier. The trends and challenges described in this chapter provided a background illustrating what this means for middle-income households, how they perceive their situation and what the effects on electoral dynamics have been. A few lessons stand out.

First, the stability of the middle class can largely be attributed to households with high incomes that have larger-than-average household sizes. Individuals who would be part of the upper class, based on their primary income, are part of the middle class based on the total household income and family size. Future changes in demographics might alter the share of the middle class further.

Second, under the general trend of income stability lies a trend of more flexible work patterns. Some of these patterns are voluntary, but for some sectors and types of work the use of new types of contracts does not bode well for the income security of the middle-class household. This is a source of anxiety for many households.

Third, the popularity of political parties at the further end of the political spectrum give a view on the salient issues for middle-class voters. As of 2017 they are about a fair treatment of young and old generations, the emancipation of people with a migration background, and worries about immigration.

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# Chapter 10: The Middle Class in Poland

Filip Pazderski

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Since the notion of the middle class is alien to a communist system (at least, it doesn't fit into this system ideologically), a Polish middle class only started to appear after the fall of the communist regime in 1989. Noticeable improvements in living standards started to be visible after the year 2000 – and in many parts of the country even later, after Poland's accession to the European Union in May 2004. Hence, such a short period hardly allows us to say that the middle class is a well-grounded concept.

For the definition of the Polish middle class, Henryk Domański, a sociologist working on social stratification, observes that origin, attitude to education, family and social networks are important to describe a person as member of the middle class. In this sense, a doctor's son, with a secondary education, who works as a bartender, can be included in the middle class; his chances in the labour market are much higher than another boy from the village, who also works as a bartender<sup>1</sup>. The middle class usually includes intelligentsia, senior executives, state officials, business owners and professionals/experts<sup>2</sup>. Researchers have emphasised that also family members of people from such economic groups possessing appropriate salary levels should be also taken into consideration<sup>3</sup>.

One of the important issues related to the middle class in Poland has to do with the extent to which its current composition represents a continuation of the social stratification of Polish society that existed during the communist regime. Even in the communist society, where capitalistic ownership of goods was absent (at least theoretically), there certainly was a social stratification that had to do with power relations and control over the means of production<sup>4</sup>. It is likely that the development of the middle class and social mobility both became more dynamic after 1989.

In a 2014 book, Andrzej Leder points out that wealth of Polish “bourgeoisie” (and the middle class, in this sense) is the beneficiary of two main tragedies of the 20<sup>th</sup>

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<sup>1</sup> See: Szulc, A., Tomczuk, J., “O co walczy polska klasa średnia?”, *Newsweek*, 19.03.2014, <http://www.newsweek.pl/polska/klasa-srednia-zarobki-praca-klasy-sredniej-w-polsce-newsweek-pl,artykuly,281370,1.html>.

<sup>2</sup> See: <http://forsal.pl/artykuly/817092,klasa-srednia-w-polsce-oto-mity-dotyczace-tej-grupy-spolecznej.html>.

<sup>3</sup> See: Wyżnikiewicz, B., „Klasa średnia rośnie w Polsce w siłę”, *Obserwator Finansowy*, 15.05.2015, <https://www.obserwatorfinansowy.pl/tematyka/makroekonomia/klasa-srednia-rosnie-w-polsce-w-sile/>.

<sup>4</sup> See: Domański, H. (2015), *Czy są w Polsce klasy społeczne?*, Krytyka Polityczna, Warszawa, p. 87-108 and Słomczyński, K. M., Krauze, T. K. (2017), *Class Structure and Social Mobility in Poland*, Routledge.

century – the Holocaust of Polish Jews and the dissolution of the local gentry at the establishment of the People's Republic of Poland<sup>5</sup>. The destruction of these two groups left an empty space in the social structure of the nation that has been filled by the current middle class (sometimes using the property of both groups). This process of societal revolution, as the same author argues, was largely finished by new members of the middle class in 1989.

The modern form of social classes in Poland needs to be seen within the perspective of broader socio-economical processes. On the one hand, macroeconomic developments provide the background to the development of social classes. On the other hand, socio-political and cultural factors influence people's self-perception. The recession that followed the global financial crisis exposed the newly formed Polish middle classes to the new risks that come with a market-based economy. Further fears arose from the arrival of migrants that had an impact on the labour market and the welfare system<sup>6</sup>. An additional threat was projected by some politicians who painted the evil forces of foreign capital as those who sought to 'colonise' the Polish economy and were only interested in financial gain. The way that politicians played on such fears might be one of the explanations for the large support for populist rhetoric that is also visible nowadays among the middle class.

## 1. The income perspective

Concerning macroeconomic indices, Poland has been one of the best-performing countries in Europe since the collapse of Iron Curtain. Economic growth is high, and since 1989, Poland has not seen a single year of economic contraction – not even during the 2008 economic depression or the subsequent Eurozone crisis. Because of this outstanding performance, Poland has been labelled a "green island" of economic growth, compared with the rest of Europe<sup>7</sup>. Economic acceleration has been mirrored also in a significant change in the Human Development Index, which rose from 0.71 in 1990 to 0.84 in 2014<sup>8</sup>.

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<sup>5</sup> See: Leder, A. (2014), *Prześlona rewolucja. Ćwiczenia z logiki historycznej*, Krytyka Polityczna, Warszawa.

<sup>6</sup> See: Kucharczyk, J. (2017). *Poland – When fear wins: causes and consequences of Poland's populist turn*, in: *Nothing to Fear but Fear Itself?*, Demos, London, <http://www.isp.org.pl/uploads/pdf/1018601294.pdf>, p. 305-349.

<sup>7</sup> *Reuters*, *Poland was a "green island": GDP revision shows no recession occurred*, 21 April, 2016, available at: <http://www.reuters.com/article/poland-growth-revision-idUSL5N17O1IC>.

<sup>8</sup> The World Bank Databank, Human Development Reports, United Nations Development Programme, Human Development Indicators – Poland: <http://hdr.undp.org/en/countries/profiles/POL>.

One of the effects of the transformation, however, was an increase in the Gini coefficient, reflecting an increase in income inequality. During the 1990s, the coefficient rose from 0.27 in 1990 to 0.33 in 2000. The figure stabilised around 2005 and has remained at a similar level of around 0.34-0.35 since then<sup>9</sup>. Figure 9 in the overview of Chapter 2 compares the situation in Poland with other countries. Another negative effect of the transformation was a massive increase in unemployment throughout 1990s, reaching a peak of 20% in 2003 and 2004.

**Table 1: Macroeconomic indicators for Poland 2004-2016**

Source: Eurostat

	2004	2006	2008	2010	2011	2012	2013	2014	2015	2016
<b>GDP growth rate</b>	5.1	6.2	4.2	3.6	5.0	1.6	1.4	3.3	3.8	2.7
<b>Monthly minimum wage (€)</b>	182	222	336	338	347	353	369	404	418	417
<b>Average yearly wage (€)</b>	5,964	7,513	9,598	9,042	9,357	9,298	9,873	10,123	11,787	12,043

The turning point seems to be the accession to the European Union (2004), when the Gini coefficient stabilised and unemployment rates started to decline. The pre-crisis period from May 2004 to mid-2008 was very favourable to both society and the economy, due to the opening of the EU labour market to Polish employees, and an inflow of EU Structural Funds and foreign investment. This resulted in strong GDP growth, increases in wages and employment, and a decrease in poverty rates.

The economic crisis and the post-crisis period brought with them an economic slowdown (but not recession), a rise in unemployment (especially among young people), a rise in extreme poverty rates and a decrease in average yearly earnings. However, since 2013/2014, most major macroeconomic indices have been improving, and by the end of 2015 the economy – by most measures – was in better shape than it had been before the crisis<sup>10</sup>. Taking into account the whole period since accession to the EU (2004-2015), Poland has performed relatively well despite the crisis: minimum wages<sup>11</sup> and average earnings have nearly doubled<sup>12</sup>, unemployment has decreased by 12 %-points<sup>13</sup>, relative poverty has dropped by 3 %-points and extreme poverty has dropped by 5 %-points.

<sup>9</sup> The World Bank Databank, The World Bank database – Gini index (World Bank estimate)

<sup>10</sup> For the observations presented in this paragraph, see also: Owczarek D. (2017), *Social cohesion and Economic fears*, in: *Nothing to Fear but Fear Itself?*, Demos, London, p. 316-318.

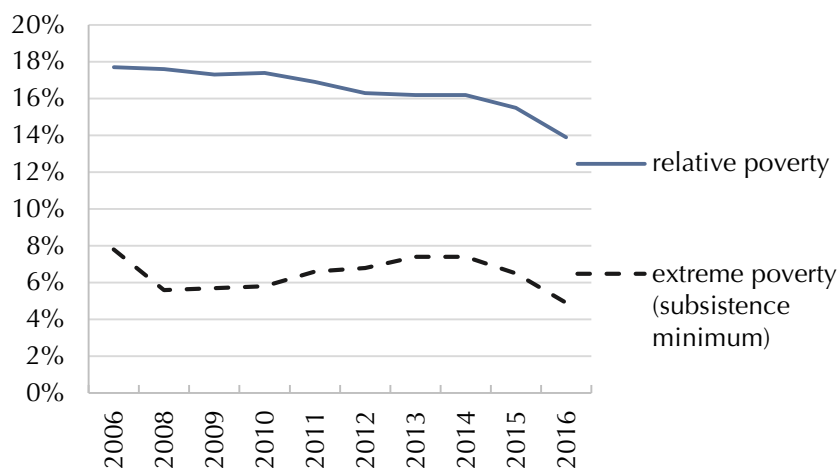
<sup>11</sup> GUS, *Wynagrodzenia w Polsce według GUS - płaca minimalna*, <http://wynagrodzenia.pl/gus/placa-minimalna>.

<sup>12</sup> Central Statistical Office of Poland (GUS, 2016), *Average gross wage and salary*

<sup>13</sup> GUS (2016), *Unemployment rate 1990-2017*



The trend of economic growth is most visible in the poverty indicators<sup>14</sup>, related to social transfers. The “500+ program”, which started in November 2015, provides financial support for each second and subsequent child in the family. For households with children, this led to a strong decline in the extent of extreme poverty and relative poverty (see Figure 1 below).



**Figure 1. Poverty indicators in Poland in the period 2006-2016**

Source: Central Statistical Office (GUS)<sup>15</sup>.

No direct data is available on poverty rates among middle-class households, but the decline in poverty rates has undoubtedly influenced their financial situation as well. If anything, the fear of poverty has been reduced for households who might consider this to be a relevant risk.

The positive economic trends for Poland are also confirmed by the data showing consumption expenditure of individual households. While taken as a proportion of GDP at current market prices, the share of expenses dedicated for consumption in Poland seems to have decreased constantly (from 61% in 2006 to 57% in 2016, closer to the EU-average of 54% in 2016)<sup>16</sup>. This means that Poles have more money for other purposes than consumption (i.e. for financial investments).

The average amount of annual consumption expenditure for each adult person has increased from € 5,817 in 2005 to € 8,801 in 2010 and € 11,400 in 2015<sup>17</sup>. With regard to

<sup>14</sup> GUS, *Zasięg ubóstwa ekonomicznego w Polsce w 2015 roku*, Warsaw 2016. “Extreme poverty” is understood by Central Statistical Office as the subsistence level, which takes into account only those needs whose satisfaction cannot be delayed and consumption lower than what leads to biological extinction, whereas the relative poverty limit is set at 50% of the average total household’s expenditures.

<sup>15</sup> See: <https://stat.gov.pl/obszary-tematyczne/warunki-zycia/ubostwo-pomoc-spoleczna/zasieg-ubostwa-ekonomicznego-w-polsce-w-2016-r-14,4.html#>.

<sup>16</sup> See: [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Consumption\\_expenditure\\_of\\_households,\\_2006,\\_2011,\\_2015\\_and\\_2016\\_YB17.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Consumption_expenditure_of_households,_2006,_2011,_2015_and_2016_YB17.png).

<sup>17</sup> See: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=hbs\\_exp\\_t134&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=hbs_exp_t134&lang=en).

the value of consumption expenditures, this locates Poland on the top of almost all countries that have joined EU in and after 2004.

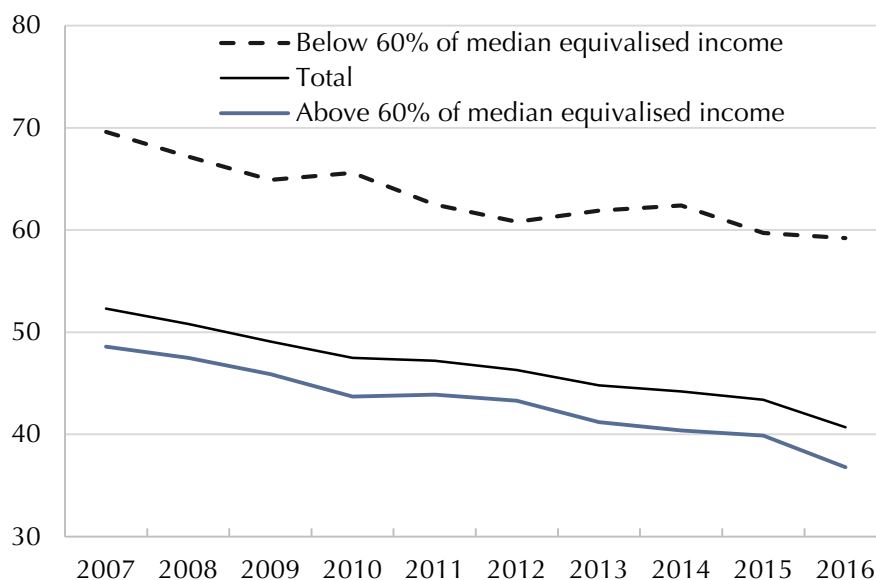
Not all groups benefited equally from this economic growth. A significant rise in income inequality, coupled with notoriously high rates of unemployment in the 1990s and the highest levels of temporary employment in Europe, are the main sources of inequality. Inequality, high levels of emigration after 2004 and a changing social mobility within Polish society influenced the composition of the middle class.

## 2. Non-income-related perspectives

### The affordability of housing

One of the most important factors representing recently the fragility of the emerging middle class in Poland is related to the affordability of housing. The ownership rate of 84% is one of the highest across the European Union. Having a property, preferably without a mortgage, gives the Poles a sense of security and stability<sup>18</sup>. It is a sign of affluence to own a new house that is different from those built by the large housing cooperatives in communist times.

At the same time, the overcrowding rate (related to the availability of sufficient space in the dwelling) was in 2016 the fifth highest amongst all EU-28 countries, at the level of 40% (just below that of Romania (48%), Latvia (43%), Bulgaria (42%) and Croatia (41%)). Figure 2 shows the development of overcrowding in Poland since 2007, which is the highest for households below 60% of median income.

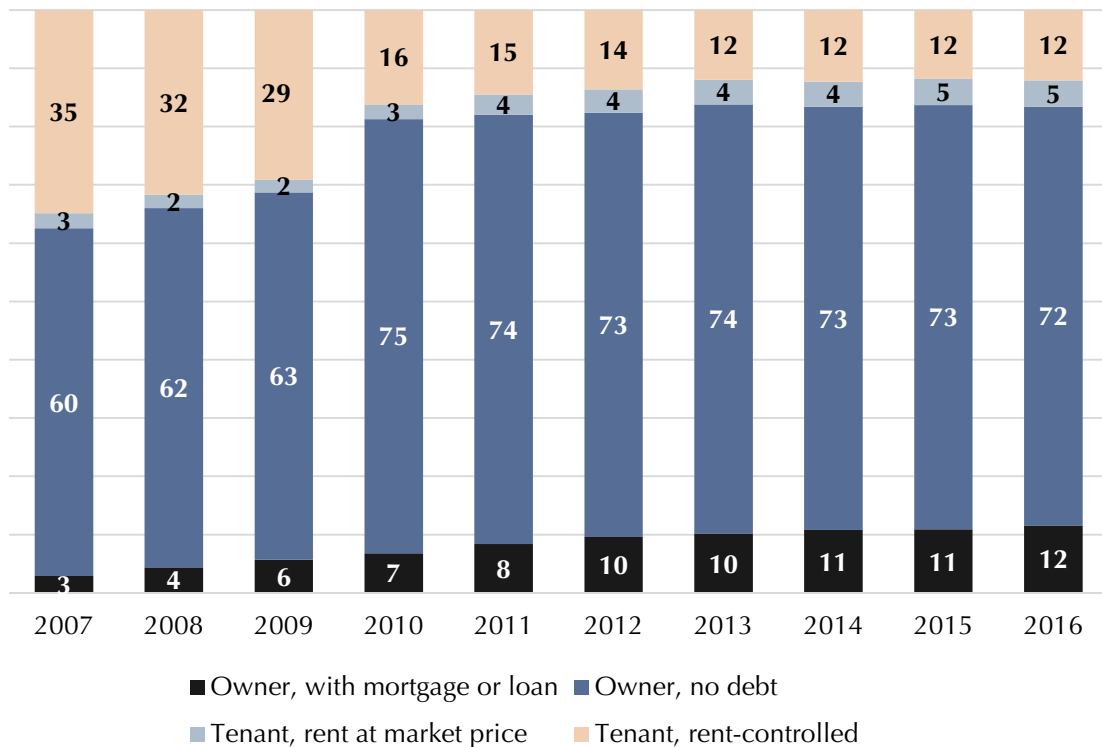


**Figure 2: Overcrowding rate by economic status—2017**

Source: Eurostat.

<sup>18</sup> See: <https://businessinsider.com.pl/twoje-pieniadze/rynek-mieszkan-na-wynajem-w-polsce-polacy-wola-kupowac-mieszkania/nlb20vk>.

The decrease in overcrowding rates is in line with an increase in households that own their house with a mortgage. This increased almost fourfold in the last ten years; see Figure 3. At the same time, both owning a home without a mortgage and living in a rent-controlled apartment have decreased. Ownership rates are quite similar for households below and above 60% of median income; taken together, this provides a clear sign of improvement in the Polish housing situation and for the middle class as well.



**Figure 3: Population share by tenure status—2017**

Source: Eurostat.

While analysing these figures for the following years we can observe a break in the data around the years 2009 and 2010. Partially, this may reflect the results of the governmental programme called “Family on their own” (pl. *Rodzina na swoim*<sup>19</sup>), adopted in 2006 (first contracts were concluded in 2007). Its goal was to help people (families and single parents raising children) without any property to get their own home. They could obtain access to preferential borrowing rates with subsidies from the State Treasury to pay the interest on the loan for the first eight years of its repayment. The subsidies could reach up to fifty percent of the amount of interest. Within the framework of the program in the years 2007-2012, the banks granted more than 181,000

<sup>19</sup> See: <http://www.rodzinaswoim.net.pl/>

loans for the amount of over 33 billion PLN<sup>20</sup>. The results of this programme were not the only factor, but they did add to the general improvement of the economic situation in the country.

Financial liberalisation did come at a cost, when some households took out a mortgage in a foreign currency, mostly in Swiss Francs. Banks were offering mortgages in CHF at significantly lower rates, but few households considered the implied exchange rate risks that they were taking. After the global financial crisis of 2008/2009, the Swiss Franc appreciated steadily, raising the mortgage rates for those on a CHF mortgage. Indebtedness and insolvency increased likewise, and many middle-class households came into financial difficulties. The government could not, or would not, offer a solution to this problem and it became a theme in the general election of 2015.

At the end of 2016, approximately 7% of mortgages were in Swiss Francs<sup>21</sup>. Of these mortgages, only 1% are in arrears, which means that most people manage to pay on time. However, the interest costs for the other 99% are still a large burden, larger than they were originally intended to be, taking up a substantial share of the household budget<sup>22</sup>. This influences perceptions about the future and has made the Swiss franc loans a political issue.

### Family stress

There is a sense of fragility of the Polish middle class, seen in the diminished sense of affluence and feelings of stability in the longer run. It is also shown by the ease with which the narrative on Swiss franc loans became popular and in the belief that political promises on this issue will be kept.

In addition, the impression of stagnation is reinforced by the situation on the labour market and the education system. Polish employees have a high number of working hours, which potentially leads to stress in the work-life balance. Many employees are on temporary contracts. The combination of these effects forms an impression that the future for middle-class children might be not as bright as their parents want it to be. This is despite high GDP growth and incremental improvements in the situation of their households<sup>23</sup>.

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<sup>20</sup> See: <https://www.forbes.pl/wiadomosci/program-rodzina-na-swoim-podsumowanie/9y9ep97>.

<sup>21</sup> See: <http://businessinsider.com.pl/finanse/makroekonomia/ile-w-polsce-jest-kredytow-frankowych-zadluzenie-polakow/xyz3348>.

<sup>22</sup> See: <http://www.rp.pl/Finanse/303299946-BIK-maleje-liczba-kredytow-frankowych-ale-rośnie-zadluzenie-Polakow.html>.

<sup>23</sup> Cf Domański. H. (2012), *Polska klasa średnia*, Wydawnictwo Naukowe Uniwersytetu Mikołaja Kopernika ;

Interview with Henryk Domański; "Henryk Domański: Klasa średnia - najbardziej rozwścieczona grupa społeczna", 14 July, 2013, available at: <http://forsal.pl/artykuly/718340,henryk-domanski-klasa-srednia-najbardziej-rozwscieczona-grupa-spooleczna.html>; Krzysztof Jasiński, *Kapitalizm po polsku*, IFIS PAN, Warsaw 2013.

### **The labour market**

Unemployment in Poland was decreasing rapidly before the financial crisis of 2008/2009, but increased again to a peak of 10.3% in 2013. As of Q1 2017, unemployment is around 5%.

The lack of stable employment is an important factor affecting the situation of the middle class in Poland. Wages are lower, compared to other EU countries, but Poland also has the highest share of temporary employment in the EU (this category also includes those employed under civil law contracts, which are not subject to protection under the Labour Code). In 2016, those on temporary contracts (civil law contracts) formed 21% of all employees, whereas the EU average was 11%; see Figure 6 in the overview of Chapter 2.

The downside for workers under temporary contracts is that they are not subject to protection under the Labour Code and thus build up limited social security benefits. In the case of a *service contract*, social security contributions are paid, but the contractor has limited rights (i.e. no holiday leave, allowances, sick leave, notice period of the contract termination), whereas in a *contract for work* there is no obligation to pay social security or health insurance and the contractor does not have the right to take any kind of leave (including maternity or parental). Furthermore, Polish employees are among the longest working employees in the EU, raising questions about the work-life balance of Poles. Some members of the group employed under temporary contracts could be recognised as employees working in precarious conditions. This group definitely also includes middle-class representatives. Not everyone sees this as a bad thing. Henryk Domański, a sociologist, regards even some precarious conditions as motivating for middle-class individuals, who remain employable by being flexible and developing new skills when necessary<sup>24</sup>.

### **Social mobility**

The Polish middle class can be characterised by its novelty and rapid development during the times of socio-economic and political transformation that started in 1989 (or even some time before that). The development of the middle class is visible in the data related to the social mobility of Polish society; see Table 2.

A large change occurred around the end of the communist regime, when the inheritance of class position dropped sharply, from 39% in 1982 to 23% in 1992. The strength of the relationship between the professional categories of fathers and respondents also dropped from a strength of 1.0 to 0.8 after 2000. In table 2 this indicator has been set on the starting point in 1982, with value 1, in order to show changes that occurred afterward. Thus, values lower than 1 show that the strength of the relationship

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<sup>24</sup> See Suchodolska, M. (2013), "Klasa średnia - najbardziej rozwścieczona grupa społeczna" – An interview with Henryk Domański, 14.07.2013, <http://forsal.pl/artykuly/718340,henryk-domanski-klasa-srednia-najbardziej-rozwscieczona-grupa-spoeczna.html>.

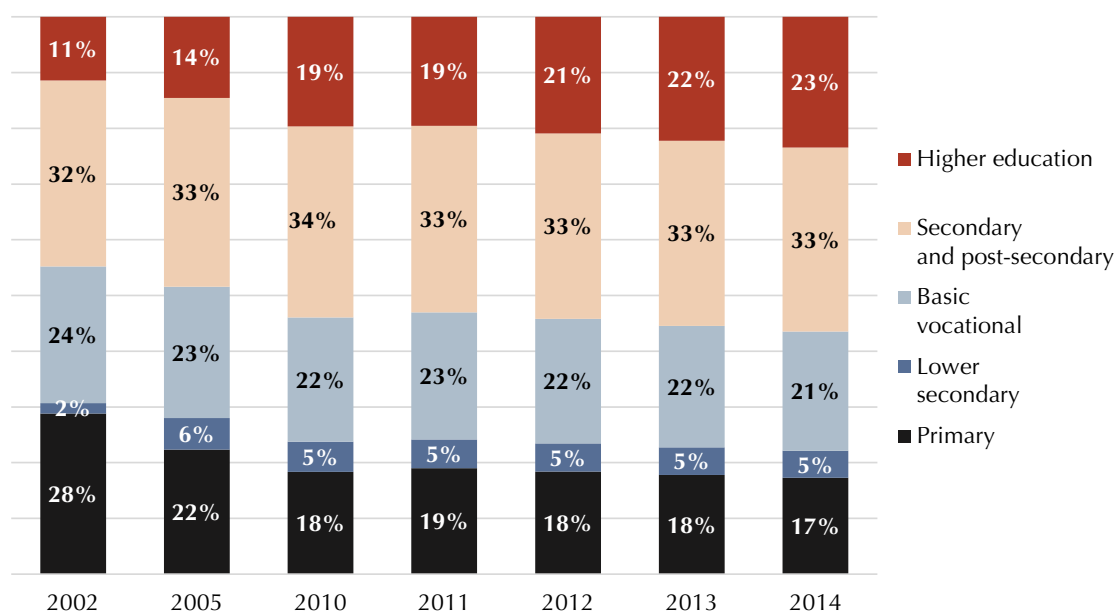
between the class affiliation of the respondents and their fathers was weaker in subsequent years than in 1982, while the values higher than 1 would indicate that the relationship was stronger. The author of this analysis, Henryk Domański, sums it up this way: it shows that “we are a mobile society in which intergenerational mobility decisively dominates the continuation of barriers related to the social origin”<sup>25</sup>.

**Table 2: Changes in social mobility, 1982-2010**

Source: Domański H., *Czy są w Polsce klasy społeczne?*, p. 115. The strength of the relationship measures the relationship between the professional category of the father and the respondent, is normalised at 1 in 1982.

Year	Percentage of inheritance of class position	Strength of relationship
1982	39	1.00
1992	23	0.98
2002	29	0.79
2010	25	0.87

In terms of education, many more people achieve higher education than ever before; see Figure 4 below. This also points towards an increase in mobility.



**Figure 4: Educational attainment—2014**

Source: GUS.

To obtain a full picture of the process representing the mobility of Polish society, we need also to understand the massive emigration from Poland that started in 2004.

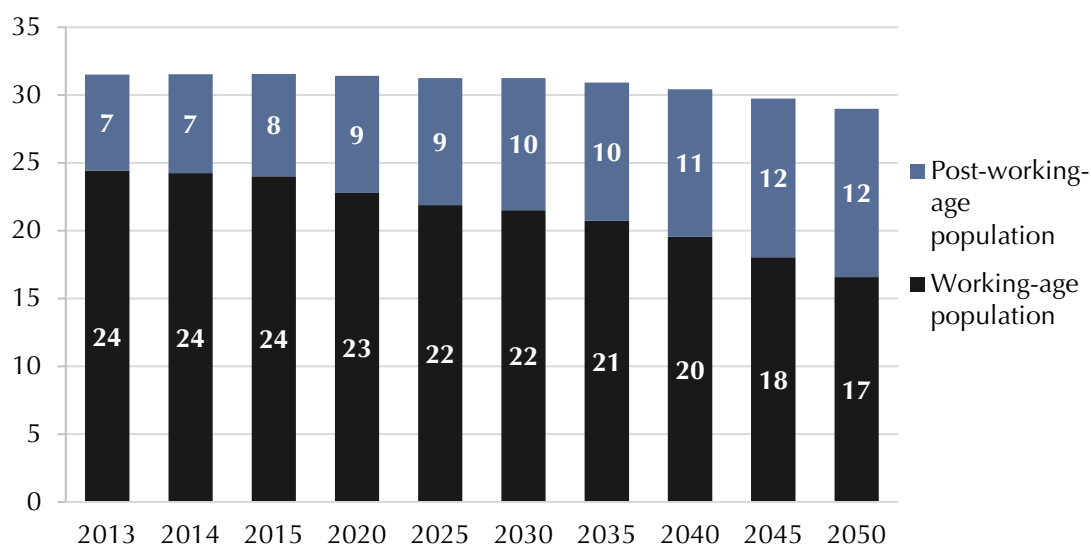
<sup>25</sup> Domański H., *Czy są w Polsce klasy społeczne?*, p. 119.

Current estimates put the number of Poles temporarily living abroad at 2.3 million, which is about 6% of the total population<sup>26</sup>. Post-accession migration can mostly be attributed to economic reasons and to some extent should therefore be assessed as a rational choice when account is taken of the level of wage divergence between EU countries. In 2014, average earnings in Poland were more than three times smaller than average earnings in the EU, and just over a fifth of the average wage in the UK— the preferred destination for Polish migrants.

The large migration flows have affected the middle class, of which some decided to leave their attachment to a high-status professional group to obtain higher wages abroad. Many of them consider this to be a temporary situation and plan to return to Poland after several years.

### Generational issues

The ageing of the society is an important issue that should be mentioned in the discussion of Poland's labour market situation. The demographic forecasts show that the number of Poles in post-working age will continue to increase. Persons who have reached retirement age (which are among others outside of the labour market, for that reason) will at the same time constitute an increasing part of the Polish population (see Figure 5). This puts additional pressure on the sustainability of the social security system, especially related to pensions.



**Figure 5: Projected working-age and post-working-age population (in mln)**

Projected size of the working-age population in millions. The current retirement age is 60 for men and 65 for women. Source: *Prognoza ludności na lata 2014–2050*, General Statistical Office, Warsaw 2014.

<sup>26</sup> Central Statistical Office, "Informacja o rozmiarach i kierunkach czasowej emigracji z Polski w latach 2004-2015" Central Statistical Office, Warsaw 2016.

Thus, being faced with such a situation, the previous government decided in 2013 to gradually increase the retirement age to 67 for both men and women. This reform led to the protests of the trade unions and the displeasure of voters. Opposition parties campaigned against this reform and won the elections. The new government has reversed the increase of the retirement age in October 2017, back to the age of 60 for women and 65 for men<sup>27</sup>.

### **Regional differences**

Relative to the EU average, Poland is a fast-growing economy with low unemployment. However, there are situations, mostly in the East of Poland, of extreme poverty and stagnation. As a result, the regional concentration of middle-class households has increased, with the centre moving from East to West.

In the regional development of Poland (after accession to the EU), the government put the priority on nationwide development of infrastructure, which could be financed with EU funds. Next, larger cities were stimulated to develop as metropolitan areas<sup>28</sup>. For example, the main beneficiaries of cultural expenditures coming from European cohesion funds in the years 2010-2014 were the cities with the district rights (42% of all non-national financial resources spent by local governments on culture).

In the second place (regarding the size of such support for culture) were rural communities, obtaining half the sum that went to larger cities<sup>29</sup>. This situation could have created an image that not all of the country has been developing at the same speed and that some groups within the society (namely inhabitants of larger cities) are benefiting more than others. This variety of development speed could also manifest itself within the middle-class group. The Law and Justice Party toyed with such ideas during the 2015 electoral campaign (see below), developing the narrative that actually only limited areas have encountered any progress at all, and that all other parts of the country with their inhabitants were left behind.

### **Household composition**

There is no specific type of household that would distinguish the situation of middle-class members from the rest of the society. In general, the current trend is that the share of multigenerational families living under one roof is declining. In 2015, only 11.5% of Polish families have three or more children<sup>30</sup>.

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<sup>27</sup> See <https://www.reuters.com/article/us-poland-pension/polish-cut-in-retirement-age-comes-into-force-bucking-european-trend-idUSKCN1C60Z6>.

<sup>28</sup> See: Ministry of Regional Development, *Krajowa Strategia Rozwoju Regionalnego 2010-2020: Regiony, Miasta, Obszary wiejskie*, adopted on 13.07.2017, Warszawa, [https://www.mr.gov.pl/media/3337/KSRR\\_13\\_07\\_2010.pdf](https://www.mr.gov.pl/media/3337/KSRR_13_07_2010.pdf).

<sup>29</sup> See: Walczak, B., Jewdokimow, M., Pazderski, F. (2016), *Praktyki uczestnictwa w kulturze wśród ludności wiejskiej. Studium socjologiczne*, Instytut Spraw Publicznych, Warszawa, <http://www.isp.org.pl/publikacje,25,911.html>, p. 96.

<sup>30</sup> See: GUS (2016), *Działania prorodzinne w latach 2010 – 2015*, Kraków



### 3. Household perceptions

Regarding the middle class, there seems to be a discrepancy between the subjective assessment of satisfaction with one's personal life, on the one hand, and the assessment of politics and economic conditions, on the other. Since 1989, many Poles assess the political situation and economic conditions in the country as being bad year after year. In the case of political assessment there were only three points in time when this pattern was different: 1989-1990, just after the fall of the Soviet Union; in 1997, when the government gained stability for the first time since 1989 (equal positive and negative ratings); and between late 2007 and early 2008, when the Civic Platform government won parliamentary elections and the economic situation was improving. In the case of assessments of the economic situation there were only two exceptions: in the period 2007-2008, when economic indicators were exceptionally high, and in 2016, when the situation is historically the best according to the indices.

At the same time, positive assessments of one's personal life, including living conditions of the respondents and their families, the economic situation of respondents' households, and their general situation in the workplace, started to dominate the negative assessments of these dimensions in the period 2003-2006— and this pattern persists until now. Currently, over 50% of respondents assess their living conditions positively (8% negatively), 46% rate their households' economic situation positively (9% negatively) and 59% rate the general situation at their workplace positively (11% negatively).

The discrepancy between the positive assessment of one's personal situation and the negative assessment of the political and economic shape of the country appears to be a constant of social perception. Populist groups in Poland have often relied on this subjective sense of deprivation rather than hard data. One of the factors influencing such discrepancy between perception of personal situation and the general situation in the country is related to the large migration flow that was described earlier in the chapter. Poles who have stayed in the country remain in contact with family members and friends that have moved abroad, and learn from them what Western Europe offers in terms of life conditions and the welfare system development. This input increases their expectations regarding the development of both areas in Poland and tends to fuel disappointment, as improvement in Poland does not happen as quickly as most people would like it to.

Additionally, we observe in Poland growing expectations when it comes to the progress people make in life as well as the possibilities they possess. This is influenced by the growing share of people with a higher education, which increased between 2002 and 2014 (as presented above) from 11% to 23% of the total population. This share is even higher within the youngest group entering the labour market, the 25-29 year-olds,

who attained a rate of 43% in 2015 (it was similar in the group 25-34)<sup>31</sup>. Once we compile this observation with data on the majority of young people that work on temporary contracts, as was presented above, we can understand the difficult prospects for the younger generation. Young people are well-educated and have developed high expectations that are not completely met. Middle-class parents doubt whether their children will be able to maintain their social status. This situation may be one of the things undermining the remarkable macroeconomic developments of Poland.

#### 4. Political representation

Despite high economic growth and incremental improvements in the situation of their households, the middle class lost faith in the ruling party, the Civic Platform, at the 2015 elections. The drastic increase in the retirement age, and the issue of mortgages in Swiss Francs were used by the opposition to attack the ruling party in the last presidential and parliamentary electoral campaigns in 2015. The Civic Platform stood for the principles of the market economy and was reluctant to support mortgage holders who had borrowed in Swiss Francs<sup>32</sup>. In effect, attacking the Civic Platform became easy, by suggesting that the party was primarily looking after the interests of the banks as well as the post-communist elites that benefited from the transformation process after 1989.

The party that won the election, PiS (“Law and Justice”), very skilfully used the weaknesses of the Civic Platform against them. PiS managed to integrate the (often contradictory) discontents of different social groups into a counter-narrative, dubbed by its critics as “Poland in Ruin”, depicting Poland as a country where few benefit from growth and masses have become increasingly impoverished. The success of such a campaign is difficult to understand looking at various social and economic indicators, and it may read as yet another triumph of fear over reason and gut feeling over expert knowledge.

The rise of the PiS was abetted by the prominence of young and popular right-wing public intellectuals as well as by social media platforms. Nationalist, xenophobic messages stopped being associated exclusively with young, muscular, close-shaven youngsters and old ladies, but gained a new, elegant and even glamorous wrapping.<sup>33</sup> Research on electoral behaviour of different social groups demonstrates that PiS’ electoral victories can be attributed to the mobilisation of young, well-educated

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<sup>31</sup> See: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>.

<sup>32</sup> See: <http://wyborcza.biz/Gieldy/1,114507,19091678,po-wygranych-pis-frankowicze-gorakcje-bankow-w-dol.html?disableRedirects=true>.

<sup>33</sup> J. Fomina, “The Unlikely Euroseptics: The Role of the Domestic Context in Shaping anti-European Attitudes among the Young Poles”, *Polish Sociological Review*, (I) 2017.

supporters of the right-wing political forces and active users of the internet.<sup>34</sup> Social networking sites and online media have fanned the flames of frustration with the current, anti-elite sentiments, xenophobia, and a craving for “good change”.

Nominating Beata Szydło as PiS candidate for Prime Minister as the friendly face of Law and Justice was a key part of its strategy to rebrand itself by shifting the debate to more social issues. The new PM candidate presented a number of well-targeted proposals that addressed many of the aforementioned discontents people had with the otherwise successful Civic Platform track record in government. In addition to the proposal to roll back the recent retirement age reform, other proposals included a more generous child benefit and a minimum wage.<sup>35</sup>

As a result, Law and Justice obtained an electoral victory in the elections of November 2015, giving it an absolute majority in the parliament (51%) with just 18.6% of the votes. This is partly due to a divided left-wing spectrum, where none of the parties passed the 5% electoral threshold<sup>36</sup>. The PiS did obtain votes from practically all demographic groups. This also included representatives of middle class, who moved their support away from Civic Platform. In the government, PiS still has support from middle-class voters, due to favourable economic conditions and social policies like the so-called “500+” programme of child benefit for each second and following child born to the same couple. However, as is shown on the Figure 6, there are two groups, where the support for Civic Platform (staying in opposition, now) is higher: managers and specialists with higher education as well as administrative and office staff. Members of the former group are also the ones with higher support for the Modern Party (13% of voters from this group), which went to the elections with centrist, liberal programme.

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<sup>34</sup> W. Kazanecki, “Zainteresowanie polityką i poglądy polityczne w latach 1989–2015. Deklaracje ludzi młodych na tle ogółu badanych”, Komunikat z badań NR 135/2015, Centre For Public Opinion Research, available at: [http://www.Cbos.pl/SPISKOM.POL/2015/K\\_135\\_15.PDF](http://www.Cbos.pl/SPISKOM.POL/2015/K_135_15.PDF).

<sup>35</sup> Description of the PiS 2015 electoral campaigns strategy is based on: Kucharczyk J., *Poland — When fear wins: causes and consequences of Poland's populist turn*, op. cit., p. 310-311.

<sup>36</sup> The left-wing parties cumulatively received 11%, but no left-wing party entered the parliament, as neither the United Left Bloc passed the 8% threshold for the coalition of parties, and the New Together Party missed the 5% threshold for political entities campaigning independently. In addition, the radical right-wing KORWiN party (with 4.76% of votes) also failed to pass the threshold. The election results are available at the website of the National Electoral Commission (Poland); see [http://parlament2015.pkw.gov.pl/351\\_wyniki\\_senat](http://parlament2015.pkw.gov.pl/351_wyniki_senat).

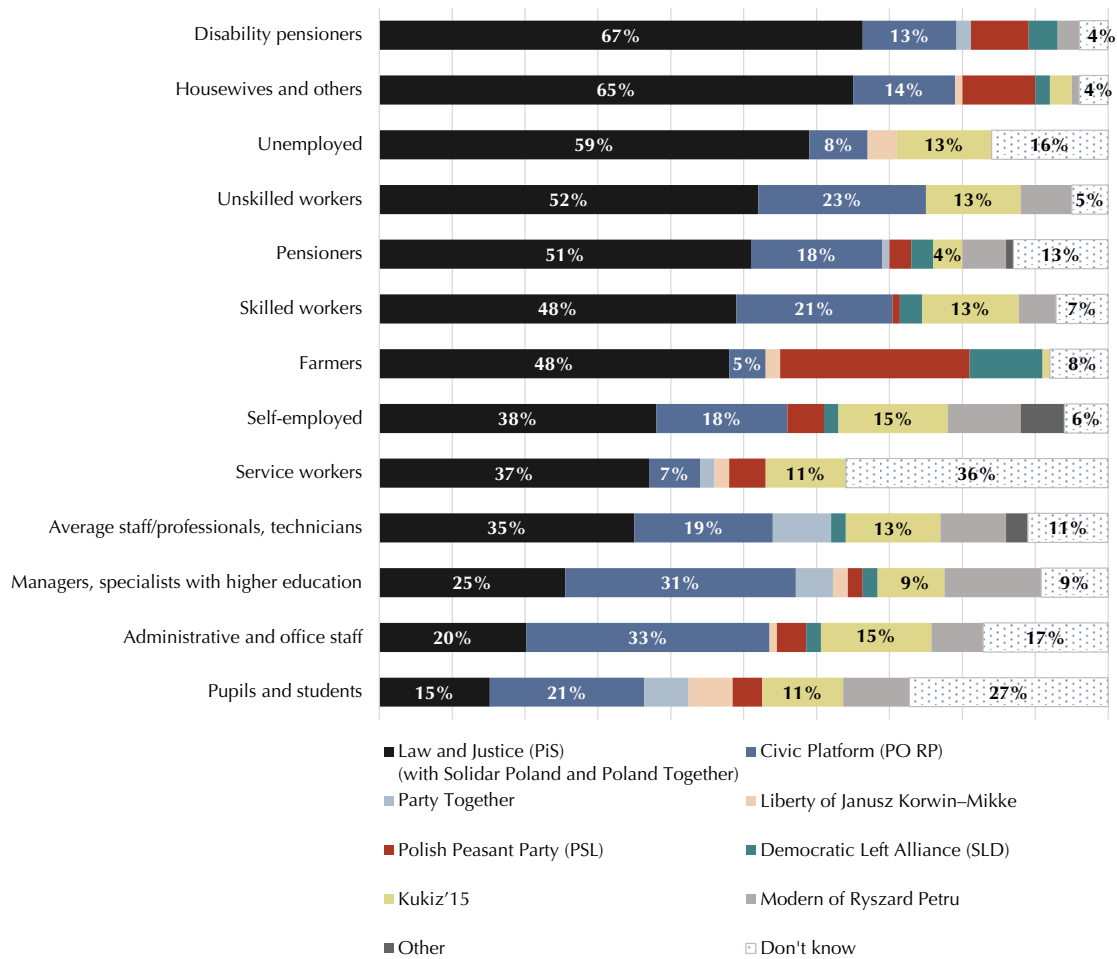


Figure 6: Support for political parties by socio-economic status

Source: CBOS (09.2017)

## 5. Globalisation, technology and migration

From the trend of further automation of the workplace, we may expect that some of the work of professionals and experts will be taken over by robots. In addition, managers will have to develop skills of controlling the work of artificial intelligence instead of human employees, a circumstance that may influence their situation related to control of power. Holding such control will also require possessing special computing and programming skills and adjusting the education system to such new expectations so that it is prepared to train students with appropriate skills. Otherwise, such graduates of the outdated educational system will lose their position on the social stratification, also falling below the position held by their parents.

The trend of ageing presents a threat to the social security system and greater insecurity about retirement. People will have to work longer, even after retirement, to maintain their living standards. Additionally, well before reaching the retirement age they would need to change their life habits and focus more on lifelong learning in order

to constantly gain new skills, enabling them to stay responsive to changing labour market conditions and helping them to remain active in this market after reaching retirement age. One effect of such processes is that control over the means of production would become increasingly related to skills and experience obtained during the lifetime rather than to the social position inherited from the family. On the other hand, the role of cultural capital – in terms of morals and attitudes that are predominantly transmitted in family life and upbringing – might become more important, which may give middle-class representatives an advantageous start.

A final trend is that of political developments in the European Union. If multispeed integration becomes a reality, some of the EU Member States will be left outside a core of the countries undergoing deeper integration. For such states, possibly including Poland, their economic development might be hindered; this would obviously have an impact on the middle-class economic and cultural position.

## 6. Conclusion

Poland has seen vast improvements in the economic situation and the living standards of the middle class. This was largely due to the migration of workers to other countries and the inflow of foreign firms and capital since accession to the EU in 2004.

However, inevitable comparison with living standards in Western European countries and the rise in materialistic values have led to a perception of stagnation and a loss of traditional security. This perception was coupled with the impression that the Polish socio-economic transformation has been implemented in a wrong (too liberal) direction, neglecting conservative values and not being inclusive enough. Conservative-populist politicians have used these perceptions to create an impression that the entire transformation process from the communistic state has been a failure, driven by the former elites of the Communist party.

The idea of a middle class in Poland is still relatively new. The middle class, brought into existence after 1989, was formed in the crucible of the economically challenging times of the 1990s. This chapter has described how the sense of uncertainty in the middle class has increased, with limited job security and declining housing affordability. To mitigate a further decline in the perceived well-being, policymakers should develop social policies aimed at mitigating unemployment risks and educational policies aimed at providing students with the skills necessary to thrive in a changing labour market.

# Chapter 11: The Middle Class in Spain

**Miguel Marín & Elisa Rodríguez**

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In Spain—as in other European countries—public debates have recently focused on the increasing levels of inequality and the constricted middle class. Concerns about the economic and social effects of the increased inequalities and the reduction of the middle class have taken on particular relevance during the last few years, especially since the onset of the economic and financial crisis in 2008. A growing number of academic studies have tackled these particular issues.

This chapter addresses these growing concerns surrounding the decline in the middle-class share in Spain, from two different points of view: the income perspective (providing an overview of the evolution of the median income growth rates registered since the start of the crisis almost ten years ago) and the non-income perspective (analysing other sociological and cultural aspects, such as education and labour market developments).

## 1. The income perspective

Before the crisis, the EU as a whole experienced slow progress in average income levels. However, that was not the case for peripheral countries, which managed to register a notable growth in real income levels. This resulted in a rapid process of income convergence between the EU core countries and the peripheral countries, mainly the Eastern European countries and Spain, which was the only Mediterranean country registering notable growth in real income levels during the period 2004-2008 (Eurofound, 2017).

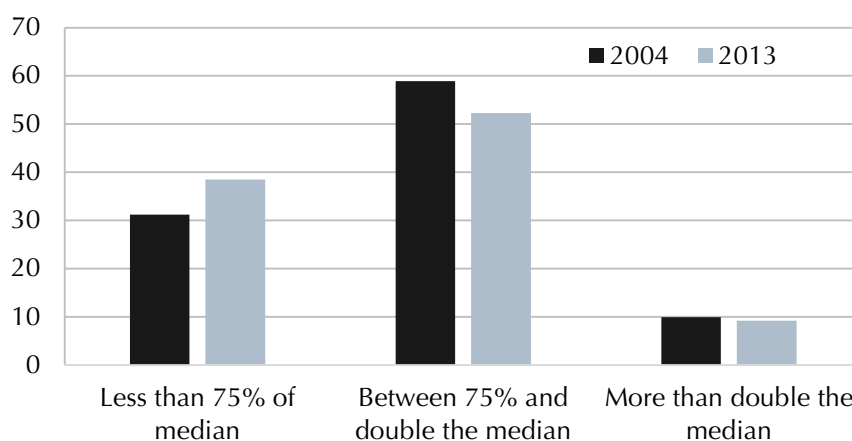
The crisis, however, marked a turning-point in the trends of income levels, which declined significantly from 2008 in most European countries (especially those in the periphery). Together with Ireland and Italy, Spain was one of the countries it hardest by the crisis. In particular, real household income levels in Spain decreased by more than 3% between 2007 and 2013. The lower income quintiles were especially worse-off, compared to their counterparts in the other countries.

Equivalisation, the process of accounting for household economies of scale, changes the pattern of real median income growth in Spain: over the 2007-2013 period it is close to 0. This could be interpreted as Spanish families staying together in households for a longer time, to absorb the shock to household income and employment. The stability in real household income then reflects a rational response to economic decline. On the other hand, the change in household size could also reflect a secular trend towards larger families, which coincides with a beneficial effect of

equivalisation. In any case, even after equivalisation the median equivalised net income in Spain remained one of the lowest in the set of countries in this book.

The income growth of the median household is a proxy for the income growth of the middle class. Among the other countries in this collection, the size of the middle class (56%) in Spain is among the smallest; see the overview in Chapter 2. Moreover, whereas in Ireland and Italy the middle class experienced a slight increase (Ireland) or remained constant (Italy) from the 1980s to 2013, the Spanish middle class contracted slightly in size.

The middle class declined particularly in the 2008-2013 period. Most of this decline is due to households now being designated as lower income. The increase in size of the bottom-income tier can also be observed in Figure 1. Following the crisis, the percentage of the population in the middle-income tier has diminished (since 2004, the Spanish middle class has declined by some 3.5 million people), while the population has clearly increased in the lower-income tier. Inequality has increased accordingly; see Figure 9 of the overview in Chapter 2.



**Figure 1: Household share per income class (2004 and 2013)**

Source: Fundación BBVA

In all, middle-class households, which were experiencing notable improvements before the crisis, are now moving backwards, feeling vulnerable and less confident in future opportunities (Fundación BBVA, 2016). Spain remains one of the economies with the highest levels of inequality among the countries considered in this study, due to the economic crisis and the ensuing loss of jobs (FAES Foundation, 2015 & 2016). These high inequalities suggest a worsening of the middle class and an increase in income polarisation.

As in other countries, social transfers have helped mitigate the increased income inequality in Spain during the crisis period; see Figure 9 in the overview chapter. However, as recent studies have found, the Spanish welfare system is relatively inefficient (compared to other European countries) in reducing inequalities (FAES

Foundation 2015 & 2016): the public spending components aiming to reduce inequality levels (education, for example) fail to achieve their purpose.

## 2. Non-income-related perspectives

### **The affordability of housing**

The crisis starting in 2008 led to difficulties in accessing housing in Spain. This was to a large extent a logical consequence of the incredibly high unemployment rates, the tightening of the mortgage conditions and the impossibility of selling one's own dwelling (Housing Europe, 2015). In this regard, recent studies point out that most Spaniards, from 2007 on, would only be able to access housing through tenancy. The policies launched by the government aiming to facilitate tenancies (such as the "Basic Emancipation Income", which consisted of a grant for young people who sign a tenancy contract) indicate the growing importance of tenancy in Spain (TENLAW, 2014).

Moreover, the 2017 Family Budget Survey conducted by the INE shows that middle-class households spend larger proportions of their budget (29.5% to 35.4%) on items related to dwelling, while this type of expenditure is clearly lower (26.6%) in households with greatest expenditure levels.

Furthermore, it is important to note that the strong bias towards homeownership is something that actually distorts inequality rates in Spain. In this regard, as some studies show (FAES Foundation, 2015), Spain is far from being one of the European economies with higher inequality levels when homeownership is taken into account; in that case, Spain is actually one of the EU countries registering relatively lower wealth inequality levels.

Finally, the indebtedness of the Spanish private sector has seen a significant reduction over the last few years. In particular, since 2010, when private indebtedness reached 216% of GDP (most of it coming from the mortgages that originated during the pre-crisis real estate boom), household indebtedness has fallen by 19 %-points of the GDP (Rallo, 2017). The rapid process of deleveraging of the last seven years has resulted in falling household consumption rates. This has obviously caused a loss of families' capacity to access housing, which was already hampered by the limited access to credit after the crisis.

### **Family stress**

Many scientific theories—such as the psychosocial stress theory (Nada Es Gratis, 2016)—hold that unemployment and economic difficulties generate situations of stress on individuals. Anxiety, depression, cardiovascular disease and pathologies are directly related to stress situations deriving from labour and financial problems (El País, 2010). In this regard, since the beginning of the crisis in 2008, Spain has seen a



notable increase in the number of persons suffering from anxiety and depression as a consequence of the weak economic environment (El País, 2009).

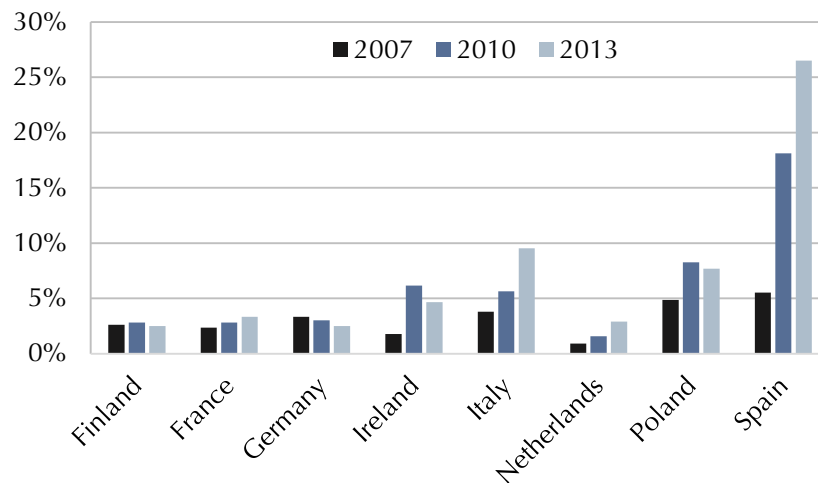
Moreover, the changes to the fiscal system introduced since the onset of the crisis have probably contributed to the increased anxiety and stress levels experienced by families. As experts maintain, the working (or middle) class has borne the brunt of the tax burden in Spain, thereby for many years providing for the sustainability of the social welfare system. Moreover, the middle-income class seems to suffer the most, and benefit the least, from the tax reforms adopted over the last few years. The reforms of 2014 reduced income tax rates, but mostly for the higher and lower incomes. As for the tax on capital, the general exemption applied on the first €1,500 of dividends, which was very important for the middle class, was eliminated in 2014 (El Economista, 2015; El País, 2014).

### **The labour market**

Spain has been one of the European countries affected the worst by the economic and financial crisis starting in 2008. As a result, unemployment rates increased greatly, as did job uncertainty and insecurity. The labour market situation has been one of the main determinants of the decline of the middle class in Spain.

During the period 2007-2013, the unemployment rate in Spain increased by around 18 %-points, reaching 26% of the active population in 2013—the highest unemployment rate in the countries in this collection; see Figure 5 of Chapter 2. The loss of employment opportunities, however, was felt particularly among young and low-skilled Spaniards. These are the type of employees that are also employed more often through partial and temporary labour contracts. This has led to a more pronounced decrease in their average income levels and a clear decline in their relative position in society.

In this regard, it is important to stress that the Spanish labour market is characterised by a strong duality between permanent and temporary workers (i.e., the typical insider-outsider problem). This has resulted in a pronounced volatility of the unemployment rate over the business cycle. The 2012 Labour Market Reform diminished the duality in the labour market to some extent (FEDEA, 2016), although the unemployment rate is still very high—at around 17% of the working population as of July 2017.



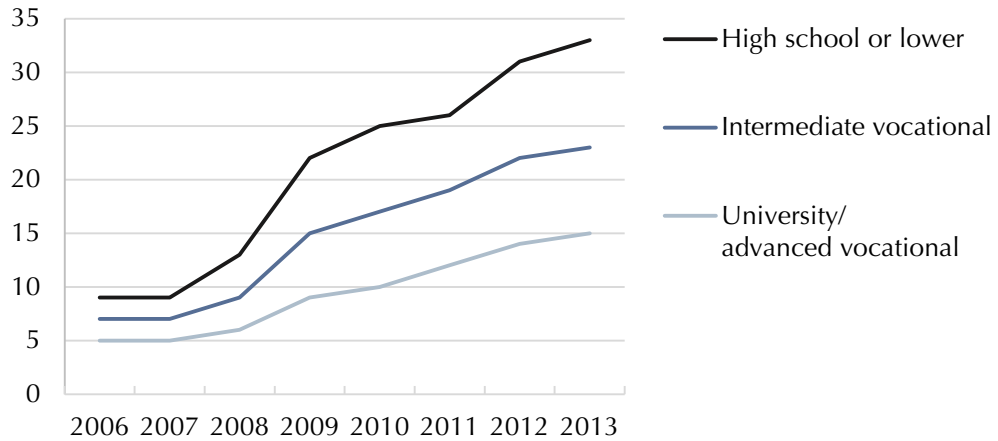
**Figure 2: Labour market insecurity over time**

Labour market insecurity is defined as the expected earnings loss associated with unemployment, a combination of unemployment risk, the expected duration of unemployment and the effective insurance against these losses through unemployment benefits. Source: OECD, Hijzen and Menyhert (2016).

In terms of labour market security, Spain also performed poorly during the crisis, compared to other EU countries; see Figure 2. It shows labour market insecurity defined as the expected earnings loss from unemployment for the countries in this book. From 2007 to 2013, the labour market insecurity rate worsened rapidly—from 5% to more than 25%. This rise in labour insecurity, which was mainly due to the increase in the risk of unemployment and its duration, particularly affected the most vulnerable groups, such as young people on temporary contracts and with low qualifications (Hijzen and Menyhert, 2016). Once again, young and low-skilled Spaniards were the most negatively affected.

### **Social mobility**

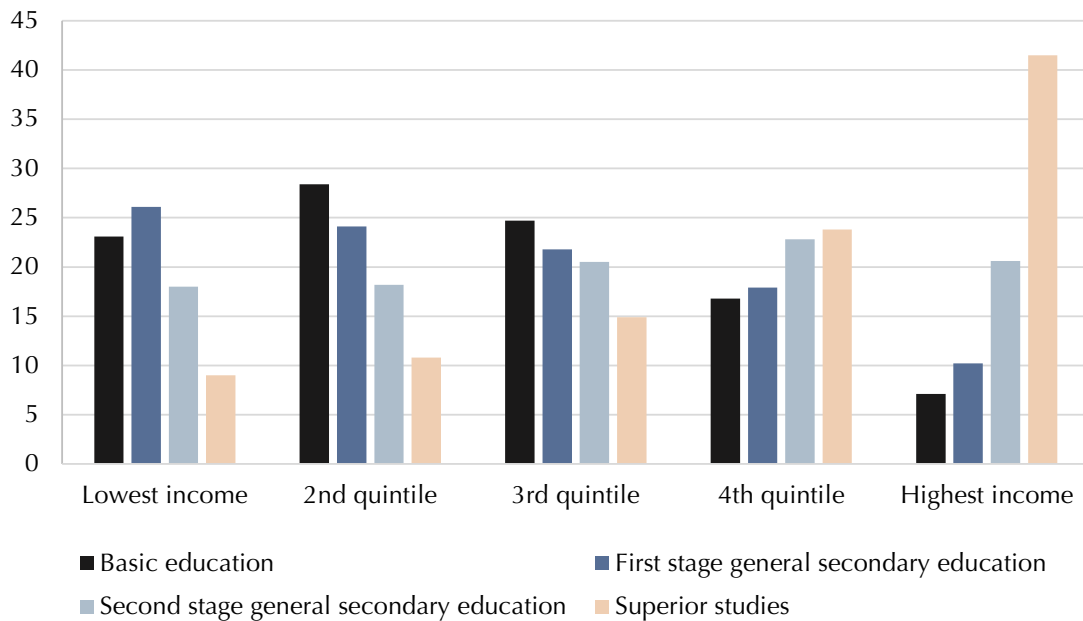
A good education system enables people to fully develop their knowledge and their personal and professional skills. Equal access to education and training systems therefore plays an important role in ensuring equal opportunities for everyone to find employment and succeed professionally. In that sense, Figure 3 shows that unemployment rates are higher among Spaniards who only have basic compulsory education, while for those who have completed secondary education and for university graduates the rates are clearly lower. Also, education plays a crucial role in people's opportunities of belonging to a wealthier income and social group; a good education is thus also correlated with higher wages. (FAES Foundation, 2015).



**Figure 3: Unemployment rates by education level in Spain**

Source: FAES Foundation (2015). The orange colour refers to University/advanced vocational training, black to intermediate vocational training/Baccalaureate, grey to high school or lower.

Figure 4 shows the population share per consumption unit. It shows that the 5<sup>th</sup> quintile of the consumption distribution is dominated by people with superior studies (that is, university studies or advanced vocational education), underscoring what an important factor education is in overcoming income differences across the Spanish population.



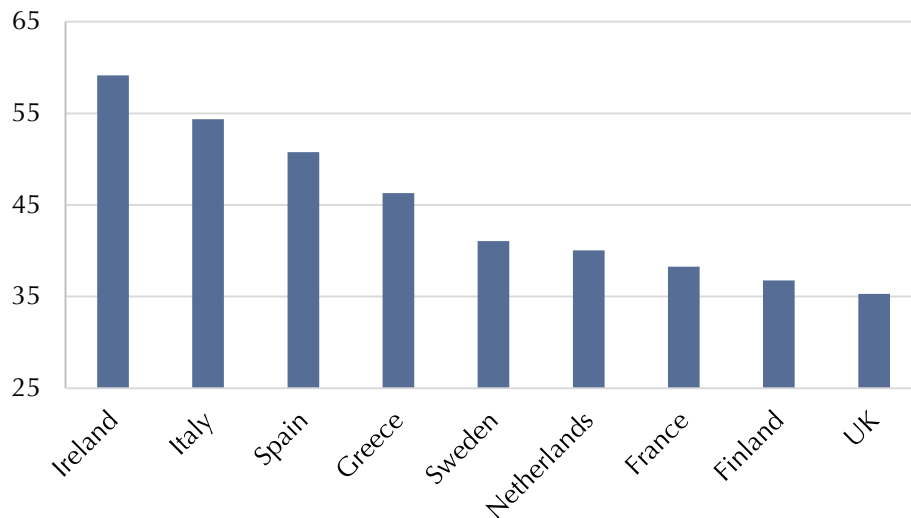
**Figure 4: Income distribution by education level—2017**

Source: Own calculations based on statistics from the INE.

In Spain, the education system is relatively ineffective in providing equal opportunities among all social- and income levels of society. To a large extent, this is due to the fact that educational success depends not only on the hard work and dedication of the young Spaniards, but also on the socio-economic and cultural status

of their parents. The number of children replicating their parents' educational level is relatively high in Spain, which means that intergenerational education mobility levels are low, compared to other EU countries; see Figure 5.

Furthermore, one of the structural defects in the Spanish educational system is the low proportion (compared to other EU countries) of young people with Intermediate Level Vocation Training studies. This accentuates the duality of the Spanish labour market and hampers the overall efficiency of the welfare system.



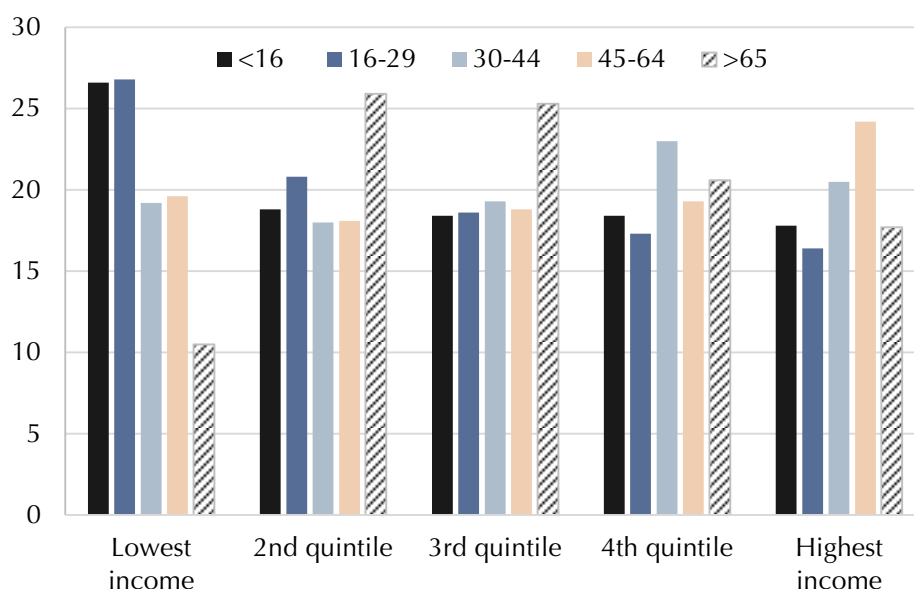
**Figure 5: Persistence in tertiary education for selected countries (2010)**

Persistence in education measured as the distance between the estimated probability (in %-points) to achieve tertiary education of an individual whose father had also achieved tertiary education and the probability to achieve tertiary education of an individual whose father had below upper secondary education. A larger number implies a larger gap, thus stronger persistence in tertiary education or a lower degree of education mobility across generations. The data shown is for the average persistence of men and women aged 35-44. Source: OECD (2010, Chapter 5).

Ultimately, these inefficiencies limit the scope of the potential positive outcomes of the education system and hinder its functioning as the 'social lift' that it should actually be. In fact, there seems to be a direct correlation between the size of the middle class and the efficiency of not only the education system, but also the welfare system as a whole (efficiency being measured as the capacity to reduce the Gini coefficient). The welfare systems of the Southern European countries (such as Spain or Italy) are characterised by their inefficiency in terms of redistributive capacity, compared to other EU countries (such as Sweden, Denmark or the United Kingdom; FAES Foundation, 2015).

### Generational issues

As shown in Figure 6, the middle-income tiers of society are mainly composed of households of people over 65 years of age, although younger people aged between 30 and 44 also represent an important part of the population in the 4<sup>th</sup> quintile. The lowest quintile has a specifically large share of young people (16 to 29 years old); the highest quintile has a large share of adults between 45 and 64.



**Figure 6: Distribution of age groups over income quintiles**

Source: own computations based on statistics from the Spanish National Statistical Institute (INE).

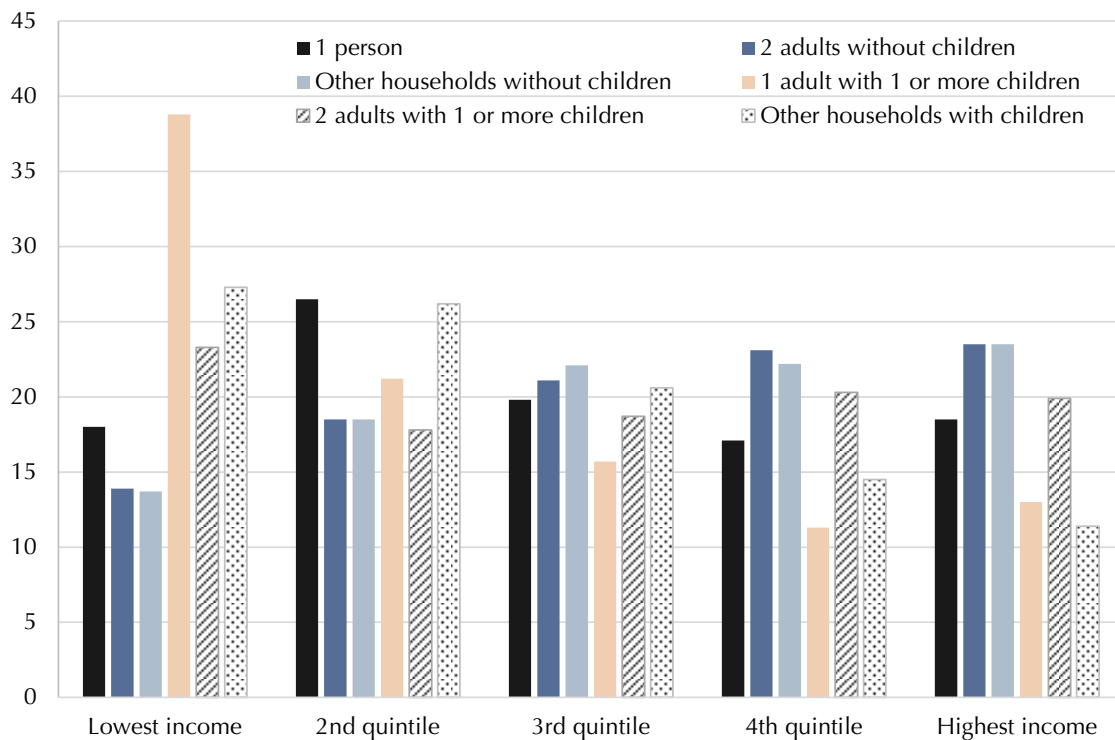
### Regional differences

According to data from the National Statistical Institute (INE), the median-income sectors of the Spanish society are concentrated in the autonomous regions of La Rioja, Comunitat Valenciana, Galicia, Cantabria, Navarra, Asturias and Aragón. The lower-income households tend to live in Andalucía, Extremadura, Murcia, Ceuta and Castilla-La Mancha. The upper-income families live in wealthier autonomous regions such as Madrid, País Vasco, Navarra and Cataluña. In this regard, it is important to note that the large differences in the living standards between the different Spanish regions make it difficult to accurately size the middle class. In other words, the median income levels vary significantly, depending on the region. In 2008, for example, the average income of Navarra was about 69% larger than that of Extremadura (Fundación FOESSA, 2014), which implies that belonging to the middle class differs greatly between regions (belonging to the middle class in Navarra is definitely not the same as belonging to the middle class in Extremadura). Ultimately, regional differences make it difficult to accurately measure the size of the middle class.

### Household composition

Figure 7 shows the composition of Spanish households, by income quintiles, according to household size. The INE calculates income quintiles by first ordering persons according to the income level per consumption unit. Subsequently, they divide these people into five groups, each group including 20% of the people. The first quintile corresponds to 20% of people with lower income levels, and the fifth quintile, to 20% of people with higher income levels per consumption unit. The 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quintiles comprise the middle-income households.

This being so, household types seem to be evenly distributed over the income quintiles, except for households with a single adult and children. These households form a large share of households in the lowest quintile, while in the 4<sup>th</sup> and 5<sup>th</sup> quintiles they are far less important.



**Figure 7: Population by income quintile per consumption unit (2017)**

Population by income quintile per consumption unit according to household size.

### 3. Household perceptions

In most EU countries, the majority of people self-identify as belonging to the middle class. In Spain, according to data by the OECD (see OECD (2016b)), the proportion of the population considering themselves to be middle class (slightly above 50%) corresponds with the percentage of people that data would suggest as actually belonging to the middle class (50%). It is quite another story in other Mediterranean countries such as Portugal, where the proportion of the population self-identifying

with the middle class is lower than income data would suggest—or in Italy, where the proportion self-identifying with the middle class is much higher.

The Centre for Sociological Research (CIS, in Spanish), however, delivers different results. According to the December 2007 barometer, 37% of the Spanish population identified themselves as middle class; in June 2017, this percentage had fallen to 36%<sup>1</sup>. Although this is just a slight decrease, it is important to bear in mind, since it might reflect a lack of confidence in future labour market and economic prospects.

#### 4. Political representation

The two main political forces in Spain—the Popular Party (PP) and the Socialist Party (PSOE)—obtained almost 84% of the votes in the 2008 general elections, while in the 2016 elections their share fell to 56%. This is a reflection not only of the general disenchantment resulting from the crisis and its consequences (unemployment, increased inequality levels and so forth), but also of the undermining of confidence in the Spanish traditional politics, due to corruption scandals and lack of credibility of the traditional parties. Ultimately, this has provided a breeding ground for new political parties, such as Ciudadanos ('Citizens') or Podemos ('We can').

The case of Podemos is of particular interest. It is a populist formation which rapidly became very popular among Spaniards, especially the 'new middle class' and the middle-upper and upper classes (El Español, 2016 & CIS, 2016). The party has been able to fill the gap left by the traditional formations that have been losing popularity since 2013 (El País, 2015), as clearly demonstrated by their loss of votes in recent elections. As some studies note, there is a simple reason for this: the middle class has shown its discontent following the crisis and is looking for solutions from new political formations (El Mundo, 2016). Podemos obtained 21% of the votes in the 2016 general election. Ciudadanos ('Citizens'), seen by voters as a centre-right party, obtained 13% of the vote.

Ciudadanos has included the middle class in its political discourse—insisting on “the need for the middle class to be given back what they have lost” instead of “tightening its belt”, referring to the Government's proposal of decreasing the ceiling for expenditure back in 2016 (La Vanguardia, 2016). Curiously enough, Podemos stands for the opposite: the party (its leader, in particular) has disregarded the new and upper-middle classes that supported it, appealing, instead, to the working and lower-middle class identity as the driving force of Podemos (El Periódico, 2017).

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<sup>1</sup> The CIS distinguishes between 'new' and 'old' middle classes. The category 'new middle class' includes non-manual salaried employees, while the 'old middle class' comprises business owners, self-employed workers and farmers.

## 5. Globalisation, technology and migration

European societies and production models are forced to adapt to the demands imposed by the twenty-first century, marked by the globalisation process and the technological revolution. The digitalisation process we are now witnessing has brought about a job polarisation phenomenon (in skills and earnings) that is contributing to the decline of the middle class (OECD, 2016b). Indeed, new technologies have created high- and low-skilled jobs, while destroying semi-skilled employment.

Job polarisation and the reduction in semi-skilled employment will have a significant effect on the income distribution and social class structure in all countries, whatever their stage of development (FAES Foundation, 2015).

Several studies suggest that migration flows have a great impact on the economy (IMF, 2016), which is particularly important for countries such as Spain, which has historically been both a sender and receiver of migrants. Since the beginning of the 2008 crisis, migration flows have mostly taken the form of young and high-skilled people between the ages of 25 and 34 leaving the country in search of employment opportunities. Some studies estimate that 700,000 Spaniards left the country between 2008 and 2012 (Fundación Alternativas, 2013). As for immigration, Spain has traditionally been a net recipient of migrants. First, in the late 1990s, immigrants came from countries such as Morocco, France or Portugal. Later, it was Latin America and today, Romanian and Moroccan immigrants are the most numerous (El País, 2017).

Given the challenges of globalisation and digitalisation, the persistence of structural weaknesses threatens the standard of living of the middle class in Spain. The inefficiency of the labour market, the welfare state and education hinders the economic recovery of middle-class households. To help the middle class recover fully from the economic crisis, we propose several structural reforms:

- Spain needs a labour market reform that leads to a further recovery of employment and puts an end to duality and insecurity;
- Spain needs a fiscal reform that sweeps away the distortion of the economic activity and increases the country's tax collection capacity;
- Spain needs an educational reform that ensures equal opportunities and social mobility;
- Spain needs a reform of the worker's training scheme, which is weak and incapable of ensuring the human capital levels required to cover the needs of the companies;
- Spain needs a pension system reform in a context of increasing longevity and low birth rates;
- Spain needs to address the high public debt levels and the consequently high amount of resources assigned to debt payment.



## 6. Conclusion

As has been the case in other EU countries, Spain has recently seen a decline in the size of its middle class—so much so, that the Spanish middle class is actually the smallest among all the countries surveyed in this report. Overall, there are several factors underlying the worsening of the middle-income tiers of Spanish society.

The economic crisis and its severe consequences, mainly the high levels of unemployment and the ensuing rise in inequality, have been key factors determining the shrinking size of the middle class. But beyond that, Spain suffers from a structural weakness which, to a large extent, explains the constriction of the middle class: the inefficiency of the welfare system, which, as we have seen in this chapter, is not able to reduce the inequality levels and fails to facilitate social mobility.

Other sociological variables suggest the undermining of the middle class in Spain. These include lack of confidence not only in the labour market, but also in economic prospects, which is reflected in the loss of social class identity, together with the general disenchantment resulting from the crisis.

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People are not robots. We are self-conscious and able to feel empathy with others. *No Robots* analyses the experience of European middle-class households in the last decade and their beliefs about how they are doing. In some countries, household incomes have grown spectacularly, but there is still discontent. In other countries, there is a large and stable middle class, but populist parties enjoy increasing support. In still others, the middle-income class is in long-term decline, without hope of improvement. Why is this, and how is it related to government policies? That is the subject of this book.

Experts from each of the nine European countries featured in this volume trace the income and non-income perspectives of households, their perceptions and the relation to electoral patterns for Bulgaria, Finland, France, Germany, Ireland, Italy, the Netherlands, Poland and Spain.

