

THE MIDDLE

Edited by Arjen Siegmann

The middle class as the moral core of society



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1

THE MEANING OF THE MIDDLE

Arjen Siegmann*

The term middle class is on a come-back. Economists, politicians and journalists discover that the well-being of the middle class and the civic values it represents are necessary to give society a good future. Measured globally, the middle class is getting bigger and bigger, but within countries the middle class feels more and more under pressure. And the civic values that form the foundation of our economic development and prosperity seem to be fading into the background when the global challenges of globalisation, technology, climate change and migration are discussed.

At the moment of writing, the protesters with yellow jackets, the *gilets jaunes*, are worldwide news. French workers protest against an increase in fuel prices, while expressing their dissatisfaction with several other reforms. These reforms aim to make the economy work better, but many people do not seem to feel that the economy benefits them. They feel like the losers of globalisation, like a lottery they have not chosen. It is like the “postal code” lottery in the Netherlands, where your lot is your postal code (and house number). Willingly or unwillingly, everyone participates. Either in the prize or in the regret of having not bought a

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lottery ticket. The lottery creates lottery tickets and “anti-lots” at the same time, so to speak.

Globalisation and the negative mood of the middle class can also be seen as an *anti-lot*. Nobody consciously draws lots for major trends such as advancing technology, migration or climate change. But they impact our daily lives. And as individuals or families, we can do very little about it. Some people are lucky because they are highly educated, earn well in a job in an international environment, or benefit from international trade. But in many sectors, employment is disappearing, especially among the lower educated. All OECD countries suffer from this¹. The anti-lot of globalisation is the aspect of the economy that causes unrest and the feeling of not longer belonging to the core of society.

The feeling of “no longer belonging”, are the words of a single mother on the Dutch evening news. She earns too much for a social housing rental, but too little to rent or buy anything else. And remarkably enough, she immediately makes the link with the broader society. As Bill supposedly said to Hillary Clinton during her 2016 election campaign, "the overall figures may look good, but the mood doesn't feel right." This feeling can have all kinds of causes and not always rightfully so, as Hans Rosling shows us in his optimistic book *Factfulness*. But it is there, and it won't go away.

The Why of the middle class: Family, political stability and progress

The biggest leap in material progress is far behind us: running water, indoor plumbing, one family per house. At the beginning of the twentieth century this was a matter of luxury and almost inaccessible to a large mass of people. That has now changed: regardless of income, we have access to television, housing, running water, and for a small amount, Netflix and Spotify. Progress within the nation has become a more relative experience. And a more mental experience:

¹ Thewissen, S., & Van Vliet, O. (2017). Competing With the Dragon: Employment Effects of Chinese Trade Competition in 17 Sectors Across 18 OECD Countries. *Political Science Research and Methods*, 1-18. Dani Rodrik (2018). Populism and the Economics of Globalization. *Journal of International Business Policy*, 1-22. Colantone, I. & Stanig, P. (2018), The Trade Origins of Economic Nationalism: Import Competition and Voting Behavior in Western Europe. *American Journal of Political Science*, 62: 936-953.

The meaning of the middle

having meaningful work and being meaningful is now a dominant issue in our lives. The economic problem of survival has shifted to the problem of meaning. In shaping a meaningful life and a good society we automatically end up with the concept of *middle class*. The term middle class encompasses the family as the core of living together, political stability and as a source of aspiration and progress.

The family is the smallest unit of society. It is also an anarchist structure: there are no outside powers that can say how it should organise itself. The value of life and family relationships takes precedence over other goals that society or the State sets for it. Life is a gift and a challenge and flourishes in the relationship with others. Man is not autonomous, as if he could live without the help of others. The wider scope of what families do and what the family members mean to each other means that we should give it as much space as possible.

In the film *Up in the air* George Clooney plays a consultant hired by companies to fire people. The viewer sees how people are shocked and horrified by their dismissal, and wonder aloud how life should continue. At the end of the film we are shown the missing second part of the conversations: people talk about the support they receive from family and friends, and who they can rely on in hard times. This is what life and family is about.

Children grow up and are raised in families and learn the value of the *middle*. Aristotle theorizes that a *virtue* is in the middle between two opposite vices. For example, the virtue of courage lies between cowardice and recklessness. Justice is a middle in another respect, namely that any deviation to the left or to the right leads to an injustice². In the same way, we can see one of the virtuous functions of the family as practicing the *art of the middle*: with multiple people in one home, we are forced to find the middle between opposing interests. The family often

² Aristotle, *Ethica Nicomachea*, book II section 9. "That moral virtue is a mean, then, and in what sense it is so, and that it is a mean between two vices, the one involving excess, the other deficiency, and that it is such because its character is to aim at what is intermediate in passions and in actions, has been sufficiently stated. Hence also it is no easy task to be good. For in everything it is no easy task to find the middle, e.g. to find the middle of a circle is not for every one but for him who knows."

provides the first experience of conflicts, and provides examples of how they can be solved.

A strong middle class is necessary for political stability. The government exists by conditions which it cannot create itself. Human life and personal life cannot be organised by the government without becoming a tyranny. This means that there must be an underlying structure, a supporting society of citizens that makes it possible to live well together. Society needs a stable core in order not to be pulled apart by centrifugal forces. Aristotle sees the middle class as a stabilising force between the needy classes and the rich. It has the greatest interest in a stable government, security and infrastructure and it is the natural ally of the government. A democracy cannot thrive by mere *input legitimacy* (the ballot box) but also needs *output legitimacy*, as the visible results of a well-functioning government.³

Finally, the middle class is a source of aspiration and progress. It embodies the moral or civic values, such as thrift, aspiration for the future, the importance of education, hard work and risk-taking. These values are the driving force behind economic development and are recognised as such by economic historians⁴. It is the invisible values that lead to visible value. They are the driving force behind the Solow residual, the unexplained component of economic growth that is not explained by the accumulation of capital and labour.

Shifts in family composition

One of the driving factors behind middle class sentiment is the demographic factor. There is population growth, ageing and immigration, but an underexposed development is that of shifts in family compositions. Russ Roberts, an American economist, shows how the higher divorce rates and the increase in single-person households confuse any comparison of income. An average household in 1970 or 1990 is very different from a household in 2018, and income statistics quickly

³ Fritz Scharpf (2009) Legitimacy in the multilevel European polity, *Max Planck Institute working paper* No. 09/1, Max Planck Institute for the Study of Societies, Cologne.

⁴ See for example Joel Mokyr (2016) *A culture of growth: the origins of the modern economy*. Princeton University Press.

lead to comparing apples with oranges⁵. The changes in family structures and household composition require a new approach to social security and the modern welfare state. These considerations can be found in several places in this book.

The increasing importance of the middle class

In the coming decades, the relevance of the subject of middle class will only increase. The Brookings Institute recently calculated that we have passed the point where 50% of the world's population belongs to the middle class⁶. This development will continue, with all the new challenges it entails. The economic model for a globalising world will have to evolve further, from free trade and development aid to the problems of differences *within* countries and the shaping of policies that give the middle class the perspective that it needs.

The uneasiness of the middle class raises new questions for economic thought as well. Economists have long thought that, as in physics, we could build on previous insights. Physicists no longer read Newton, but have integrated his discoveries into new models. As economists we often think that we no longer need to read Adam Smith or moral philosophy, because the insights have already been incorporated in modern economic theory. We might have to think again. A historical and political consideration of man and the development of the middle class must feature more prominent in the teaching of economics, politics and public administration.

Overview of the chapters

The remainder of this book consists of two parts. The first part deals with the factual situation of the middle class in Italy, Germany, the Netherlands and Bulgaria. A first chapter summarises the most important observations that result from the economic and political approach taken in each country-chapter. The

⁵ <https://www.policied.org/numbers-game/hows-middle-class-doing/video>

⁶ <https://www.brookings.edu/blog/future-development/2018/09/27/a-global-tipping-point-half-the-world-is-now-middle-class-or-wealthier/>

country-chapters have previously appeared in the collection *No Robots: The Position of Middle class Households in Nine European Countries*, a collaboration between the WI, the Konrad Adenauer Stiftung and the Wilfried Martens Centre for European Studies. They have been selected as showing the breadth of issues surrounding the middle class that appear in almost every country, but in different degrees.

The second part deals with the questions raised by the first part. Four authors interpret the problems of the middle class, and the relevance for politics.

Godfried Engbersen builds on a Dutch publication about the middle class: *The Fall of the Middle Class? Stability and Vulnerability in the Middle Segment of Society*. He describes the institutional changes that have led to more uncertainty for the middle groups in the Netherlands and provides four possible directions for policy. He proposes action in the areas of employment security, education, income and family policy.

Sybrand Buma analyses the most important political challenges when it comes to the middle class. Beyond sensible economic policies, it is the task of Christian-democratic politicians to strengthen society and renovate *our common home*.

Eoin Drea describes the problems of the middle class from a European perspective. He notes that in almost all European countries the middle class feels that there is no room to breathe. This is particularly clear for the double-earners with children, who struggle to combine work, raising children and care. It leads to a call to action in the areas of employment security, inequality, social mobility, accessible childcare and gender equality.

Jan Prij concludes the book with an answer to the question why civil or *bourgeois* values are so important. Starting from a view of man, he derives a societal ideal that consists of citizens who feel responsible for each other. The resulting humanisation task gives politics a clear goal, namely to resolve conflicts and bridge contradictory positions.

2

THE MIDDLE CLASS IN FOUR EUROPEAN COUNTRIES

Arjen Siegmann

The word middle class is widely used term. More than an income threshold, it means a *perspective* on where people come from and what they see as the good life. The following chapters describe the middle class perspective for four countries: Italy, Germany, the Netherlands and Bulgaria. The selection of these four chapters is no coincidence. Together they form a palette of how the middle class can be stable or unstable, rising or falling, hopeful or worried. Italy has a great contrast between generations and, in fact, an unstable middle class made up increasingly of pensioners. Germany has a slightly shrinking middle class, but at the same time has the lowest unemployment rate in Europe. The Netherlands has an extremely stable middle class, but this is achieved by a large degree of redistribution and increasing pressures on households. Finally, Bulgaria has a rising middle class that is at the same time pessimistic.

Each chapter has a similar structure: first the figures on the size, composition and growth of income of the middle class, then the non-income perspectives of the household. This includes concerns about living standard, jobs, social mobility, generational differences and the composition of households. A third section discusses the perceptions of the household, which may sometimes differ from the real situation. Under the heading *Political representation*, the experiences of the middle class are related to electoral changes. Each chapter concludes with

a reflection on the challenges to the middle class coming from globalisation, technology and migration.

The chapters can be read separately, as a study on the position of the middle class in the country concerned. But they also hold significance on a more general level. I try to provide that perspective below, i.e., what we can learn from each country.

Italy: increasing generational tensions and instability

The development of the middle class in Italy can be characterised as a high level of generational disparity and a general loss of confidence by the younger generation. Pensioners form an increasing part of the middle class. They have a stable income derived from accumulated rights when the Italian welfare state was still functioning well, driven by post-war growth. Now that this growth period has come to an end, pensioners stand out relative to the new generation, which, *by and large*, cannot find work, has little prospect of a permanent contract and cannot buy a house.

The Italian stalemate between generations is not easily to resolve. When asked, the elderly indicate that they would like young people to have more opportunities. But at the same time, they do not want to sacrifice their pension or acquired rights. This cannot be expected of them either. But it does mean that renewal and change might take a generation.

The overarching question— similar to that in Spain, Portugal and Greece—is the extent to which a 'lost generation' will leave a permanent mark on society. Many talented young people have left. They may not come back at all and leave a gap in society, business and politics. They are also no longer provide the necessary 'voice' in the way of Hirschman, as a second force for change alongside exit¹.

The young generation that has remained faces the challenge of finding their way in a country that has little social security and growth opportunities for them. And they have been hit by the financial and economic crisis of 2008/2009, the

¹ Hirschman, A. O. (1970). *Exit, voice, and loyalty: Responses to decline in firms, organizations, and states* (Vol. 25). Harvard university press.

subsequent Euro crisis and austerity. This has left its mark on the expectations and world view of this generation. People who have experienced the depression years of 1930, “depression babies”, have less confidence in financial markets and the economy². In the case of Italy we could speak of *Stagnation babies*.

It is not clear whether the government’s current struggle for more fiscal space will also provide more room and growth opportunities for the middle class. It needs opportunities instead of benefits, a hopeful perspective instead of scapegoats and healthy public finances instead of deficits.

Germany: more jobs but an increased downward orientation

Germany has the unique situation of having a continuously declining unemployment rate since 2007. On the one hand, this is the result of the reforms in social security and the labour market. On the other hand, it resulted from the strong export position and demand for German industrial products in China and the rest of the world. In August 2018 the unemployment rate was at 3.4%, which is among the lowest among all EU Member States.

A first lesson is that labour market reforms have worked. Putting work above income leads to real employment growth. At the same time, wage moderation and the increase in flexible employment relationships have led to a middle class that has become slightly smaller. Other countries may also be facing this trade-off, between income security and the prospects and growth opportunities offered through employment.

A second observation is that growth in employment has not prevented a growing feeling of the risk of decline among the lower middle class. This downward orientation is not conducive to an aspirational middle class oriented towards growth and development. The patterns of a downward perspective are most visible in the East. In these areas, unemployment is above average and a feeling of 'lagging behind' is noticeable. It could be related to the popularity of the AfD in these areas. The support for the AfD might be due to xenophobia, but

² Malmendier, U., & Nagel, S. (2011). Depression babies: do macroeconomic experiences affect risk taking?. *The Quarterly Journal of Economics*, 126(1), 373-416.

also to the feeling that the country's attention is focused on newcomers rather than on the existing population.

A third is the increased risk for the single-income household, the single-earner. This type of household increasingly seems to have a precarious existence. While the two-income households are doing better and make up a large part of the middle class, the single-earners are having more and more difficulty making ends meet and finding affordable housing. This is the paradox of the dual-earner models: the increased participation of both partners in the labour market has increased the downside risk. These new risks consist of the change in family situation: a child or relative who needs care, a divorce, or the loss of a partner passing away.

The Netherlands: cycling harder to stand still

The most striking feature of the Dutch middle class is its stability: its size and income growth has been very stable during the last 20 to 30 years. This is largely caused by government policies that sought to minimise changes in the income distribution. Net incomes and equivalent household incomes have remained stable through the use of benefits and allowances. The apparent stability thus comes with a high degree of intervention. In 2010, the Van Dijkhuizen committee described the system of allowances, which originally targeted 600,000 households, but now has 87 different tax expenditures and 6 million people receiving at least one benefit. This system, and the large differences in taxation between single and dual earners, has now become a problem itself.

The stability in income also conceals the fact that there is increasing pressure on dual-earners. The WRR describes this in its report on the middle class as "cycling against the wind": you still arrive at your destination at the same time, but you have to work harder to achieve it³. Higher education has become more expensive, the labour market is more demanding and high house prices make it difficult for starters to buy a house.

³ The Netherlands Council for Government Policy (2018) *The Fall of the Middle Class? Stability and Vulnerability in the Middle Segment of Society*. The Hague: WRR.

The flexibilisation of the labour market is a major theme in Dutch politics. There are more temporary workers and freelancers than ever. However, people's experience of flexibility seems less negative than is sometimes suggested. For example, financially self-employed people and entrepreneurs are the most satisfied with their work, despite the increased flexibility⁴. A large number of self-employed persons do not see themselves as victims, but rather appreciate the greater autonomy and responsibility. You could call this a middle class perspective.

People with a migration background do not perform as well on the labour market as the rest of the population. The middle class perspective, however, draws attention to something else, namely that the second generation does much better than the first. They have a better education and are much less unemployed than their parents. In 2015, only 5.4% of the non-western second generation were still on social assistance, compared to 18% of the first generation⁵. And the next generation will do even better.

Bulgaria: advantages and disadvantages of the European dream

Bulgaria is finding its way in the European Union as a member since 2007. The group of households that we see as middle class according to the income concept has shrunk slightly, but the increase in income is large: at least 30% in the period 2008-2016.

In 2012, the Bulgarian political scientist Ivan Krastev wrote about the disintegration of the order that arose after the fall of the Berlin wall. That order was born out of a consensus on the liberal market economy and free trade, and it seemed to work quite well. For 20 years, Europe's new, young democracies introduced Western democratic institutions and pursued an economic liberal policy. Opening the borders for trade and business led to a growth spurt and narrowed the gap in living standards between the East and the West. Labour migration to countries in Western Europe led to income growth for those who took the

⁴ <https://www.cbs.nl/nl-nl/nieuws/2017/43/zelfstandigen-meest-tevreden-uitzendkrachten-minst>

⁵ CBS, Annual Report on Integration, 2016.

opportunity. Since 1989, one in ten Bulgarians has left to work abroad, pursuing the European dream.

Now, more than 25 years after the end of communism, Krastev sees a less optimistic mood in the former communist countries. The UN predicts a population decline of 27% in Bulgaria between now and 2050. The liberal economic order has led to an identity crisis, migration to a solidarity crisis, and populism to a political crisis. Populism is the democratic illiberal response to undemocratic liberalism⁶. The absence of a collective dream reinforces the desire to leave the country for a better future.

The feeling of alienation, limited progress and a *brain drain* of young people are reflected in the situation of the middle class in Bulgaria. There has been income growth, but the difference in living standards compared to Western European countries is still large. And that difference has only become more visible, as people can travel freely to the West and large groups of workers commute back and forth between work in the West and their home in the East. Talented young people move permanently, which gives those left behind the impression that their country is no longer worthwhile for the new generation. The countryside is emptying and widespread corruption gives the impression that a small elite is benefiting the most from the new order.

Krastev suggests that the critical attitude of Eastern countries towards the EU has been shaped by their experience of a transnational dictatorship, as communism was. However, the attitude of citizens towards the EU does not reflect this: Surveys find that the confidence in the European Parliament is twice as high as in the national parliament. It is a hopeful signal that could indicate that the EU is associated with the aspirations of the middle class, instead of the bureaucratic entity that it sometimes appears to be.

The development of a critical middle class in Bulgaria contains some important lessons. The first is that economic development is not value-free. The arrival of multinationals, factories and foreign banks has led to the growth of the Bulgarian economy. But the economic growth might not necessarily meet the

⁶ Cas Mudde, "The problem with populism", *The Guardian*, 17 February 2015.

The middle class in four European countries

reasonable expectations of citizens, and have side-effects. For example, as long as people keep comparing their standard of living with the West, they will regularly be disappointed. And rapid growth comes with a loss of connectedness when communities start to dissolve. Hence, we may need to adjust the approach towards the new member states and peripheral countries that tries to bridge the difference in living standards "as quickly as possible". A slower speed could be preferred, if this means that communities get the breathing space to adapt more gradually.

Secondly, it shows the importance of non-economic factors in how the middle class sees itself and the world. Fast economic development and migration have an impact on the immediate environment of people who feel less 'at home'. This feeling is not easily compensated for by a higher income. The immaterial aspect should have an important place in our thinking about who we are and what makes us human. The intrinsic importance of a community and the connectedness between people is a universal value that defines the middle class.

The Middle

3

THE MIDDLE CLASS IN ITALY

Rosamaria Bitetti & Federico Morganti*

Aggregate statistics about Italy 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

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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 competition¹.

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.

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 over the longer term². 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.

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

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

The middle class in Italy

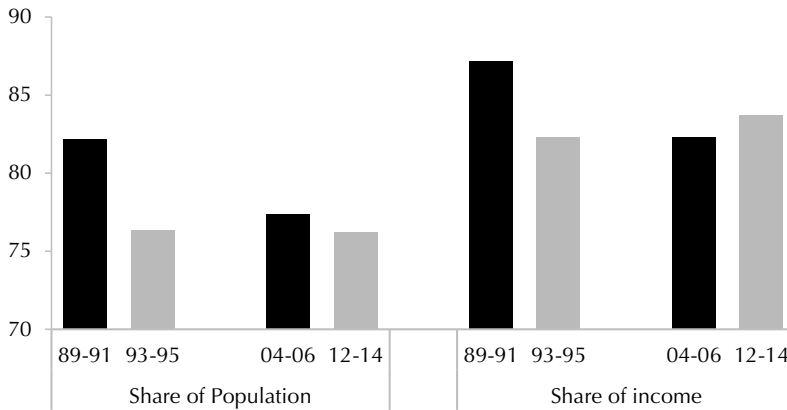


Figure 1: Middle-class share and income around recessions

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% of the population 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 inequalities³. 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 pensioners became more and more important with time, while the households receiving income from work declined.

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

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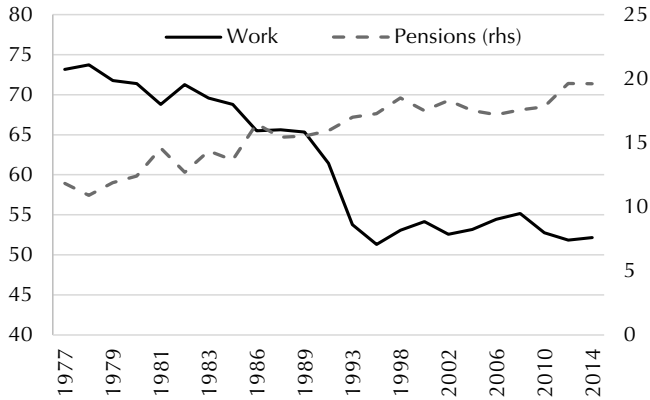


Figure 2: Share of households by source of income

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

The 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, 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 levels⁴. 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 tripled⁵.

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 parents⁶.

The labour market

The Italian labour market has always been heavily regulated, while being characterised by a strong dualism between fiercely protected contracts and “atypi-

⁴ 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.

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

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

cal” contracts, which disproportionately concern youth, women and non-skilled workers. The labour market is further characterised by an absence of general policies 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.

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 attainment⁷.

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.

⁷ Banca d’Italia, “Istruzione e formazione nel sistema produttivo”, in *Relazione Annuale 2011*, p. 128.

The middle class in Italy

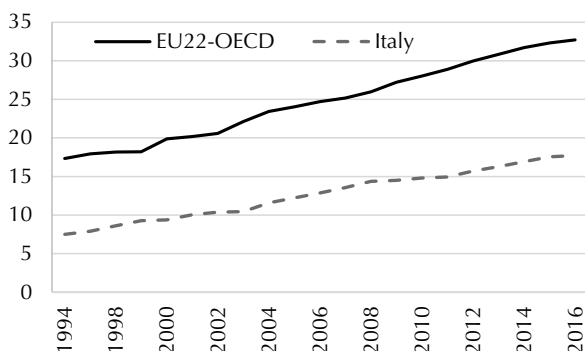


Figure 3: Educational attainment

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 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)⁸.

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 the education of the parents

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

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.

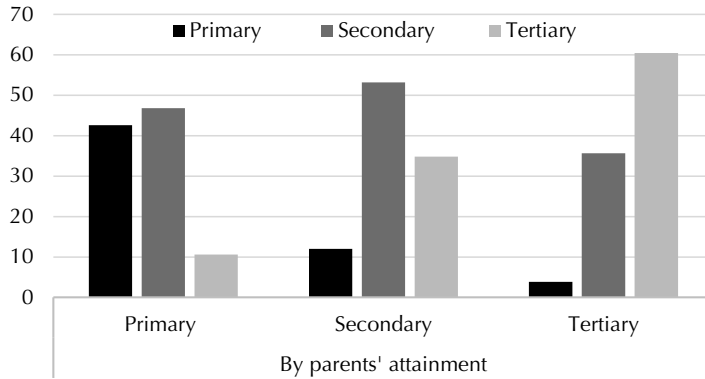


Figure 4: Educational attainment by parental attainment

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: those born in 1980 tend to earn, on average, 12% less than their counterparts in the general population⁹.

⁹ Teoldi, F., “La crisi pagata dai trentenni”, *La Voce*, 2013 <http://www.lavoce.info/archives/14844/chi-paga-la-crisi-30-40-anni/>

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%¹⁰). 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)¹¹. Still, Italy has a total public expenditure, tax levels and pension contribution rates that exceed the EU average.

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

¹¹ 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/>

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). 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 ten¹².

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.

An Istat study from 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.

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 economy, has increased up to 20%¹³. This means that the type of households that are part

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

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

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.

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), 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”¹⁴.

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

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

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 economy¹⁵.

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”¹⁶. 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 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.

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

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

The middle class in Italy

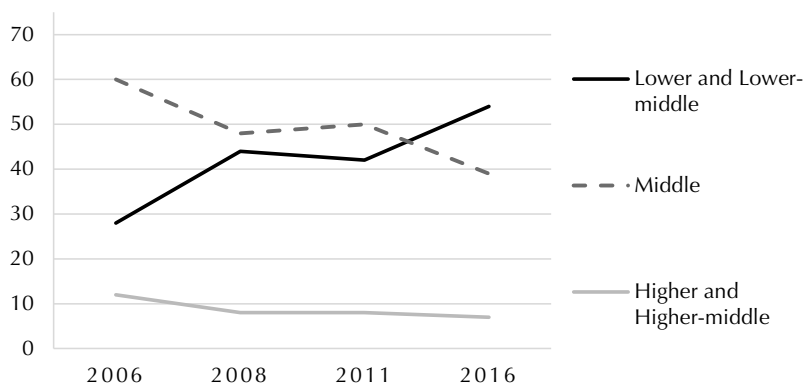


Figure 5: Perceived class identity over time

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. The 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. This has changed.

Ballarino et al. (2009) assesses the relationship between voting behavior and social class 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 (far left) 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 parties¹⁷.

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

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

arguments, and they are more than willing to change their mind if evidence and logic so require. Democracy is portrayed as the rule of Vulcans, but voters are mostly hobbits or hooligans¹⁸.

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 memes 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.

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

¹⁸ Brennan, J., *Against Democracy*, Princeton University Press, 2016.

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 trusted¹⁹.

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%²⁰. Clearly, these results reflect the migrant crisis in the Mediterranean: Italy is one of the countries receiving the highest number of migrants.

There is political support in Brussels²¹ 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 crisis will amount to 42 billion euros in 2017²². 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

¹⁹ 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>.

²⁰ Demos & Pi, "Gli Italiani e lo Stato", 2016.

²¹ 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.

²² 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

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 Card²³. 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 benefits²⁴. 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 labour²⁵. 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.

²³ 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.

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

²⁵ 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.

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 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 independent²⁶. 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 disrupting²⁷. 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.

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 significantly: 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

²⁶ Sundarajan, *The Future of Work*, Finance & Development, 2017, Vol. 54, No. 2

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

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.

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.

4

THE MIDDLE CLASS IN GERMANY

Christian Arndt*

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

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downs, explain the most important reasons and have a look at the state of the middle class beyond financial figures.

Compared to the EU average, Germany is comparably well-off and has one of the lowest unemployment rates. Yet, this has not always been the case: In 2005, Germany was cast into economic paralysis: the unemployment rate was around 13%. Since 2005, four million jobs have been added to the economy.¹

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.² After summarising relevant developments over the last decades, 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).

¹ German Ministry of Labour and Social Affairs (2017). Der Fünfte Armuts- und Reichtumsbericht [The Fifth German Poverty and Wealth Report]; see www.armuts-und-reichtumsbericht.de

² Arndt, C. (2012). Zwischen Stabilität und Fragilität. Was wissen wir über die Mittelschicht in Deutschland? Konrad-Adenauer-Stiftung (Hrsg.). Berlin. ISBN 978-3-944015-14-9.

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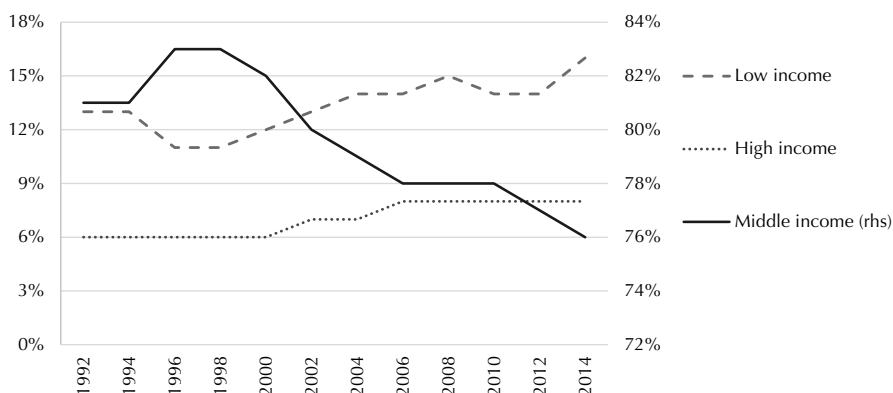


Figure 1: Population share of income classes in Germany 1991-2014

Income classes are defined as equivalised household income, relative to the median. The dashed line has the share below 60% of the median. The dotted line has the share above 200% of the median. The solid line has the income share of the middle-income class (right-hand axis), between 60% and 200% of the median. 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 Germany³. 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 and reduced the lowest marginal tax rate from 25.9% to 15%. Higher incomes also profit from these changes, and with a reduction in the top rate, from 53% to 42%, the tax reform increased inequality in terms of net incomes.⁴ The reform led 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 2005.⁵ 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”.⁶ 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 inequali-

³ IAW (2015). Analyse der Verteilung von Einkommen und Vermögen in Deutschland, IAW-Tübingen, 23.11.2015.

⁴ Biewen, M. & Juhasz, A. (2012). Understanding the Rising Income Inequality in Germany, 199/2000-2005/2006, in: *Review of Income and Wealth*, 58(4), S. 622-647.

⁵ Engbom, N., Detragiache, E. & Raei, F. (2015). The German Labour Market Reforms and Post-Unemployment Earnings, *IMF Working paper* WP/15/162.

⁶ Engbom et al. (2015)

ty 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.⁷ 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.

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%).

⁷ Peichl, A., Pestel, N. & Schneider, H. (2012). Does Size Matter? The Impact of Changes in Household Structure on Income Distribution in Germany, in: *Review of Income and Wealth*, 58(1), S. 118-141.

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

Source: Own calculations. 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.⁸

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

⁸ Arndt (2012, p. 56)

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.

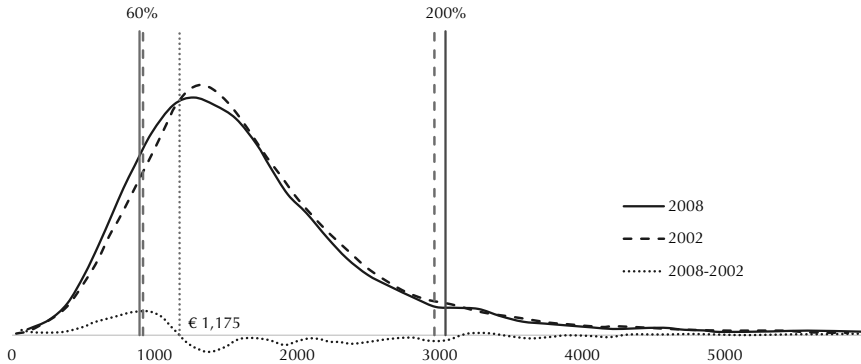


Figure 2: The shape of the income distribution in Germany 2002-2008

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). A narrow middle-income definition of 75% and 200% reflects developments around the median income, where density has diminished in Germany. Those measures consequently lead to higher loss-figures 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. 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 services⁹, 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

⁹ Fifth German Poverty and Wealth Report, p. XII

household wealth. Based on households' self-appraisal in the GSOEP survey¹⁰, 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.

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”).

¹⁰ 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.

Family stress

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 fulltime. In only 5% of households the father is 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, by 2013, there should be childcare available for 35% of all children under three years of age. Since 2013, families are even legally entitled to public childcare. Currently, around 33% of all children under three years use public childcare. Rates differ considerably between areas.¹¹

Family stress may be manifested in anxiety, and results about anxiety in the middle-income class are ambiguous in Germany. 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.¹² However, the rate of anxiety in the middle class has not increased faster than in the other social strata.¹³

¹¹ Datenreport (2016). Datenreport 2016. Ein Sozialbericht für die Bundesrepublik Deutschland. ISBN 978-3-8389-7143-8.

¹² Schöneck, N.M., Mau, S. & Schupp, J. (2011). Gefühlte Unsicherheit – Deprivationsängste und Abstiegssorgen der Bevölkerung in Deutschland. SOEP papers on Multidisciplinary Panel Data Research 428, DIW Berlin.

¹³ Groh-Samberg, O. & Hertel, F.R. (2010). Abstieg der Mitte? Zur langfristigen Mobilität von Armut und Wohlstand, in: Burzan, N. & P.A. Berger (Hrsg.) *Dynamiken (in) der gesellschaftlichen Mitte*, VS Verlag, Wiesbaden, p. 137-157.

The middle class in Germany

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.¹⁴ 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.

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.¹⁵ 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 it seems that health inequality has not decreased in the last ten to 20 years, and that socio-economic differences in health may even have increased.¹⁶

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%.¹⁷

¹⁴ German Ministry of Labour and Social Affairs (2017)

¹⁵ Jacobi, F., & Höfler, M., Siegert, J., Mack, S., Gerschler, A. & Scholl, L. (2014). Twelve-month prevalence, comorbidity and correlates of mental disorders in Germany: The Mental Health Module of the German Health Interview and Examination Survey for Adults (DEGS1-MH), in: *International Journal of Methods in Psychiatric Research* (3), 304-319.

¹⁶ Lampert, T., Kroll, L.E., Mütters, S., Stolzenberg, H. (2013). Messung des sozioökonomischen Status in der Studie zur Gesundheit Erwachsener in Deutschland (DEGS1), *Bundesgesundheitsblatt Gesundheitsforschung Gesundheitsschutz* 56 (5-6). p. 631- 636.

¹⁷ Federal Agency for Labour (2017). Arbeitslosigkeit im Zeitverlauf, Entwicklung der Arbeitslosenquote, Oktober.

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, the OECD finds that earnings quality is high and that labour market insecurity is low in Germany compared to the OECD average.¹⁸ 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, the OECD 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 Report¹⁹ 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 5th 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

¹⁸ OECD (2017). OECD Employment Outlook 2017, OECD Publishing, Paris.

¹⁹ IAW (2015b). Aktuelle Entwicklungen der sozialen Mobilität und der Dynamik von Armutsrisiken in Deutschland (Follow Up-Studie zur Amruts- und Reichtumsberichterstattung), IAW-Tübingen, 30. Juni.

that choose the highest tier, when both parents have a university entrance qualification.

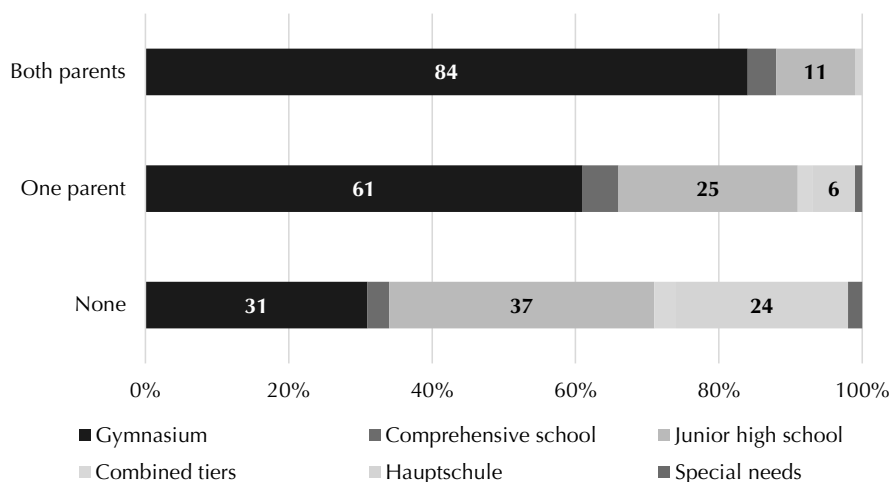


Figure 3: Educational outcomes for number of parents with university entrance qualification

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 1959.²⁰ 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.²¹

²⁰ German Ministry of Labour and Social Affairs (2017, p. 241)

²¹ See Datenreport (2016, p. 216)

Regional differences

There is a high degree of regional dispersion of the middle class 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. 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.

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 2014.²² 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.²³ 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 unem-

²² See Datenreport (2016, p. 207)

²³ German Ministry of Labour and Social Affairs (2017, p. 108)

ployment. Lengfeld and Ordemann (2016)²⁴ 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

²⁴ Lengfeld, H. & Ordemann, J. (2016). Die Angst der Mittelschicht vor dem sozialen Abstieg revisited. Eine Längsschnittanalyse 1984 - 2014, SOEPpapers 862, Berlin: DIW.

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)²⁵ 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"²⁶.

The study by Vehrkamp and Wegschaider finds that 14% of voters in the milieus 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

²⁵ Vehrkamp, R. & Wegschaider, K. (2017). Populäre Wahlen. Mobilisierung und Gegenmobilisierung der sozialen Milieus bei der Bundestagswahl 2017. Bertelsmann Stiftung.

²⁶ See www.sinus-institut.de

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”.²⁷

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 and the 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 workers belong to the middle class. 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

²⁷ Sinus (2015). Information on Sinus-Milieus 2015/16. Sinus Markt- und Sozialforschung GmbH, Heidelberg.

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 it will require new types of investment in software and robotics.

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.

5

THE MIDDLE CLASS IN THE NETHERLANDS

Arjen Siegmann

A small country in terms of population, the Netherlands punches above its weight in economic terms, being the 18th economy of the world in terms of GDP¹. 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 class² as the third-largest in the world.³ Although the Dutch middle class has been relatively stable since 1990, the size of

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

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

³ New York Times (2016). Richer but not better off, *New York Times*, October 30, 2016.

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 bln⁴. 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%.

1. The income perspective

Figure 1 shows the average gross (market) income in the middle of each decile of the household income distribution. Overall, the data from 2001 onwards shows a pattern of rising incomes for the 9th and 10th 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.

⁴ Algemene Rekenkamer (2016). *Kosten en opbrengsten van saldoverbeterende maatregelen 2011-2016 Zicht op zes jaar bezuinigen en lasten verzwaren*. Den Haag.

The middle class in the Netherlands

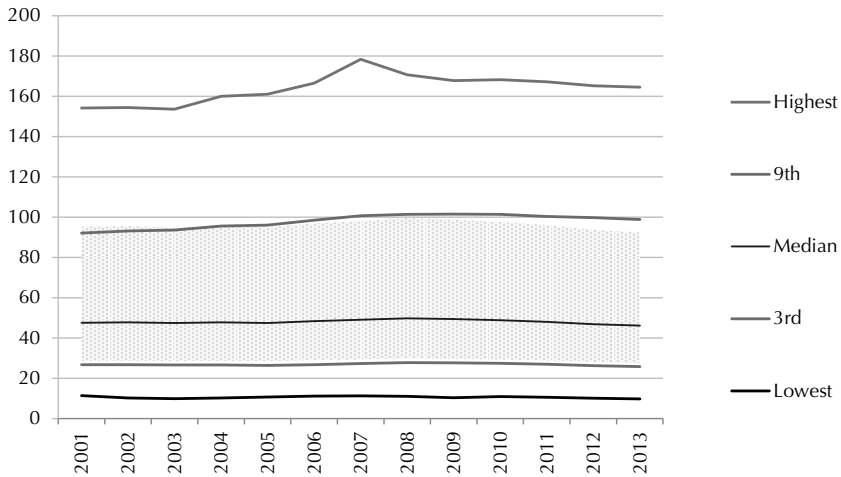


Figure 1: Average gross-equivalised household incomes per decile

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-equivalised income between 60% and 200% of the median. The data is from the national tax administration, in Euros of 2013. Source: Salverda (2016)⁵.

The impact of taxes and equivalisation is shown in Figure 2. It has the shares of persons in income classes, separate for net, gross and equivalised 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.

⁵ Salverda, W. & de Jong, E. (2016). The Netherlands: Working Ever Harder for a Middle-Class Life 1990-2014. *Economia & Lavoro*, 50(2), 85-100.

The Middle

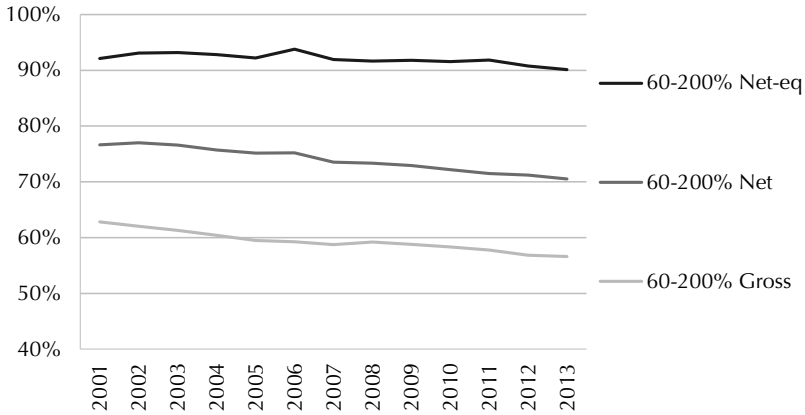


Figure 2: Class shares by income measure 1990-2013

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 equalised, 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 2013⁶.

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

⁶ See Figure 7 of Salverda, W. & de Jong, E. (2017). The Dutch middle class in times of growing income inequality 1990–2014. The crucial rise of dual earners. *AIAS Working paper 171*, March 2017, University of Amsterdam.

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 2014.⁷ It is confirmed by the trends in household income in Figure 3 below.

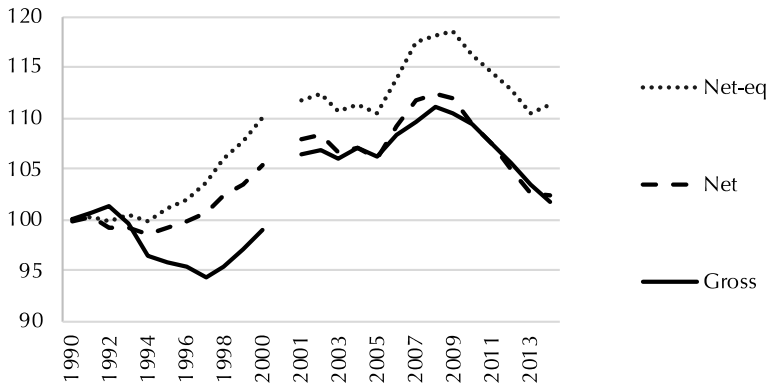


Figure 3: Median household income 1990 – 2014

The solid line is gross household income, the dashed line is net household income, the dotted line is net-equivalised income (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)⁸.

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 Govern-

⁷ McKinsey (2016). Poorer than their parents? Flat or falling incomes in advanced economies. *McKinsey Global Institute*, July 2016.

⁸ Salverda, W. & de Jong, E. (2017). The Dutch middle class in times of growing income inequality 1990–2014. The crucial rise of dual earners. *ALIAS Working paper 171*, March 2017, University of Amsterdam.

ment Policy⁹. 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)¹⁰ 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.

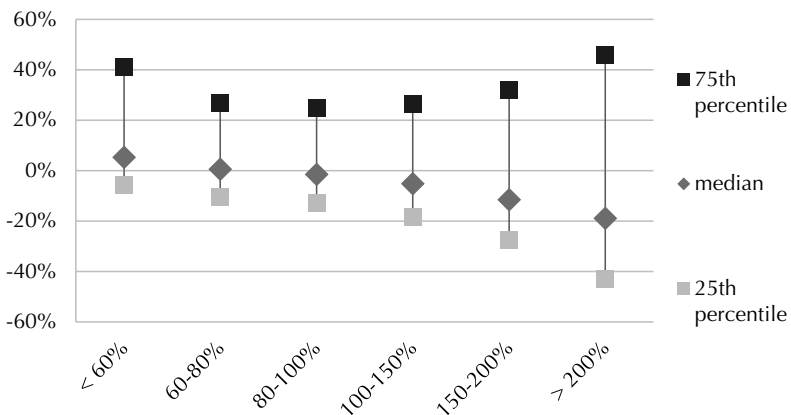


Figure 4: Spread in income growth per income class 2009-2013

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).

⁹ WRR (2017). De val van de middenklasse? Het stabiele en kwetsbare midden, *WRR rapport 114*, The Netherlands Scientific Council for Government Policy (WRR).

¹⁰ De Beer, P. (2017), De inkomensdynamiek van de middengroepen in de periode 1989-2013. In: WRR (2017) *De val van de middenklasse? Het stabiele en kwetsbare midden*, The Netherlands Scientific Council for Government Policy (WRR).

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 Groningen¹¹, 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.

¹¹ 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.

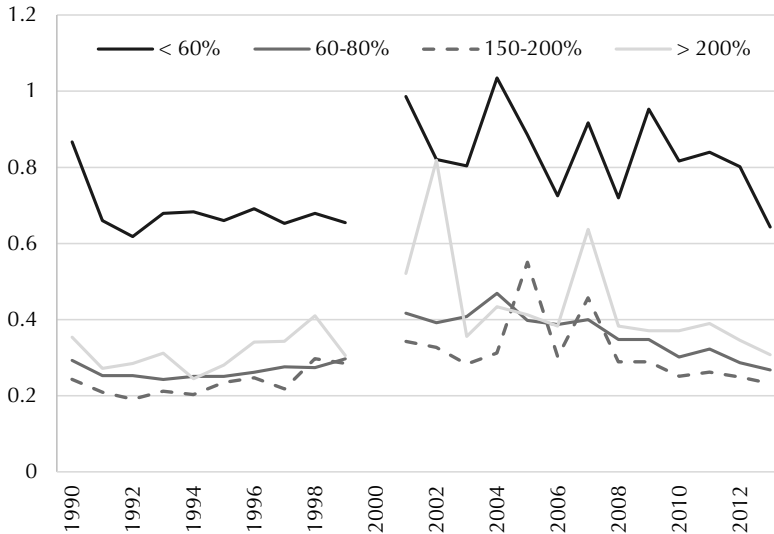


Figure 5: Standard deviation of yearly change in purchasing power, per income class.

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

2. Non-income-related perspectives

The affordability of housing

A recent study by CPB analysed the affordability of housing for middle-income groups, defined as households with an income between the 49th and 68th percentile.¹² 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

¹² Groot, S., J. Möhlmann & A. Lejour (2016), De positie van middeninkomens op de woningmarkt. CPB Policy Brief 2016/13. CPB Netherlands Bureau for Economic Policy analysis, The Hague.

rent. Engbersen and Snel (2017)¹³ 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.¹⁴

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 overheated¹⁵. 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.

¹³ Engbersen, G. & Snel, E. (2017). Het maatschappelijk midden verkend: Overzicht van bevindingen. In: WRR (2017) *De val van de middenklasse? Het stabiele en kwetsbare midden*, The Netherlands Scientific Council for Government Policy (WRR).

¹⁴ Genesove, D. & Mayer, C. (2001). Loss aversion and seller behavior: Evidence from the housing market. *The Quarterly Journal of Economics*, 116(4), 1233-1260.

¹⁵ Hekwolter of Hekhuis, M., Nijskens, R. & Heeringa, W. (2017) *De woningmarkt in grote steden*, *DNB Occasional Studies, Volume 15-1*, Netherlands Central Bank (DNB).

Family stress

The breadwinner-model has gone out of fashion, middle-class households are now almost by definition two-earner households.¹⁶ 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.¹⁷ 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 duration¹⁸. 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). 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.¹⁹ 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 em-

¹⁶ Salverda and De Jong (2017)

¹⁷ As found for the US by Kuhn, P. & Lozano, F. (2008). The expanding workweek? Understanding trends in long work hours among US men, 1979–2006. *Journal of Labor Economics*, 26(2), 311-343. For developed countries (including the Netherlands) by Burger, A.S. (2015). Extreme working hours in Western Europe and North America: A new aspect of polarization, *LEQS Paper No. 92/2015*, London School of Economics.

¹⁸ See Eurostat dataset *lfsi_pt_a*. Statistics Netherlands puts this number at 25%.

¹⁹ CPB (2016) Flexibiliteit op de arbeidsmarkt. *CPB Policy Brief 2016/14*, CPB Netherlands Bureau for Economic Policy Analysis.

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.²⁰ 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. One of the explanations for this is 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.²¹ 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.

²⁰ Michaels, G., Natraj, A. & van Reenen, J. (2014). Has ICT polarized skill demand? Evidence from eleven countries over 25 years. *Review of Economics and Statistics*, 96 (1). pp. 60-77.

²¹ Akçomak, I.S., Borghans, L. & Ter Weel, B. (2011). Measuring and interpreting trends in the division of labour in the Netherlands. *De Economist*, 159(4), 435-482.

Educational outcomes have become less dependent on the education of the parents, which suggests an improvement in social mobility.²² 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)²³, 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 the elderly seem to 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.²⁴ 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)²⁵ 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.

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 in-

²² Van de Werfhorst, H. & Dronkers, J. (2016). Twee kanten van de meritocratie: trends in nominale en positionele ongelijkheid. In: De Beer, P. & van Pinxteren, M. (eds), *Meritocratie: Op weg naar een nieuwe klassensamenleving?* Amsterdam University Press.

²³ Clark, G. (2014). *The son also rises: surnames and the history of social mobility*. Princeton University Press.

²⁴ Salverda and De Jong (2017)

²⁵ Caminada, K., Goudswaard, K. & Been, J. (2017). Neemt de inkomensongelijkheid in Nederland toe?, in: Chkalova, K., van Genabeek, J., Sanders J. & Smits, W. (eds) *Dynamiek op de Nederlandse arbeidsmarkt. De focus op ongelijkheid*, Den Haag, CBS/TNO: 85-100.

come 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)²⁶ 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 generous²⁷, 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.

²⁶ Kremer, M, D. Das & E. Schrijvers (2017). Onzeker in het midden. Over de verbroken beloften van de middenklasse. In: WRR (2017) *De val van de middenklasse? Het stabiele en kwetsbare midden*, The Netherlands Scientific Council for Government Policy (WRR).

²⁷ See p30 of Pensions at a Glance 2015: OECD and G20 indicators, OECD Publishing, Paris. http://dx.doi.org/10.1787/pension_glance-2015-en. It 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.

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.

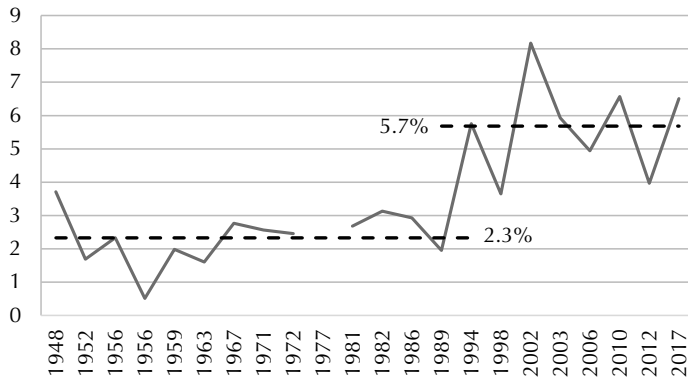


Figure 6: Electoral volatility of Dutch parliamentary elections

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.

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 worldview, 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 votes²⁸. 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 2006²⁹.

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 regions³⁰. 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 Europe. The party platform combines right-wing anti-

²⁸ 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.

²⁹ Salverda and De Jong (2017)

³⁰ This is clear from its electoral geography; see <https://www.socialevraagstukken.nl/volendam-tot-vinkeveen-de-electurale-geografie-van-de-pvv/>

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 myth³¹, 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 2013³². 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.

³¹ Caplan, B. (2011). *The myth of the rational voter: Why democracies choose bad policies*. Princeton University Press.

³² Den Ridder, J., Andriessen, I. & Dekker, P. (2017). *Burgerperspectieven 2017|2*, Sociaal en Cultureel Planbureau, Den Haag.

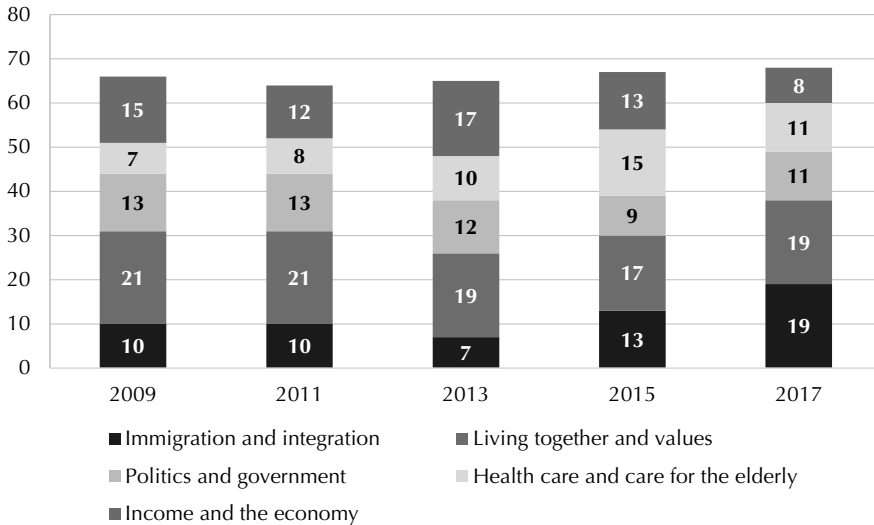


Figure 7: Stated importance of national issues

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)³³ 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

³³ Susskind, R. & Susskind, D. (2015) *The future of the professions: How technology will transform the work of human experts*. Oxford University Press.

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.

The Middle

6

THE MIDDLE CLASS IN BULGARIA

Rumiana Stoilova & Mila Staneva*

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 others¹. 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 tech-

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¹ Eurofound (2017). Occupational Change and Wage Inequality: European Jobs Monitor 2017. Publication Office of the European Union, Luxembourg.

nological 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 flows². 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 2000³, 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 product⁴.

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 be-

² Mancheva, M. & Troeva, E. (2011). Migrations to and from Bulgaria: The State of Research. In Hajdinjak, M. (ed.): *Migrations, Gender and Intercultural Interactions in Bulgaria*. International Centre for Minority Studies and Intercultural Relations, Sofia, pp. 13-61.

³At 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.

⁴World Bank (2015). Systematic Country Diagnostic. Bulgaria's Potential for Sustainable Growth and Shared Prosperity (Nr. 99721). Washington, DC.

tween rural and urban areas. Bigger shares of the rural population have emigrated to work abroad or have migrated to bigger cities within the country.⁵ 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

⁵ Institute for Market Economics (2016). The Current State and Trends in Regional Development: A General Review. Retrieved from http://www.regionalprofiles.bg/en/summary_2016/

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 2008.⁶ 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.

⁶ Packard, T., Koettl, J. & Montenegro, C.E. (2012). *In from the Shadow. Integrating Europe's Informal Labor*. World Bank, Washington, DC.

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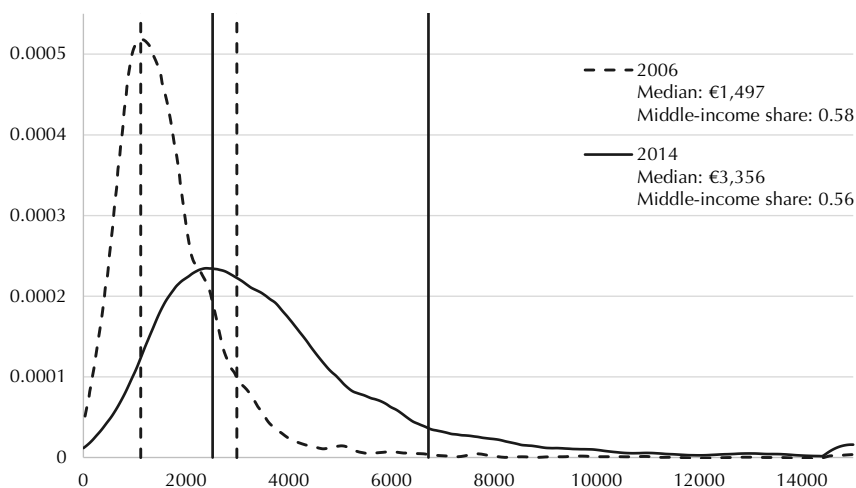


Figure 1: Distribution of equivalised household income (annual)

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

The Middle

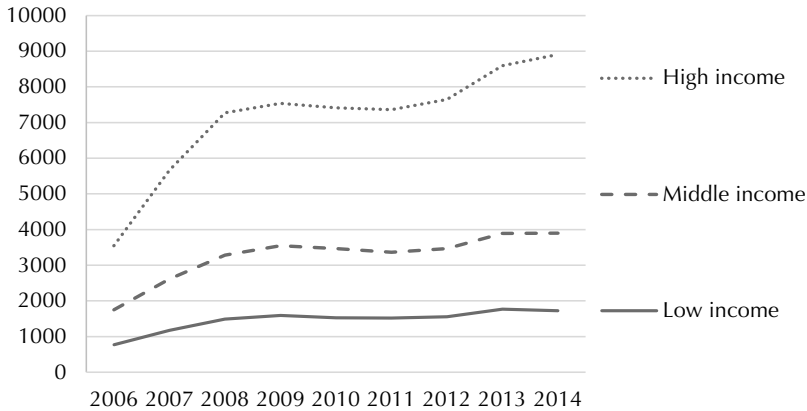


Figure 2: Income per income class

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 in Bulgaria.

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 indi-

The middle class in Bulgaria

cators 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.

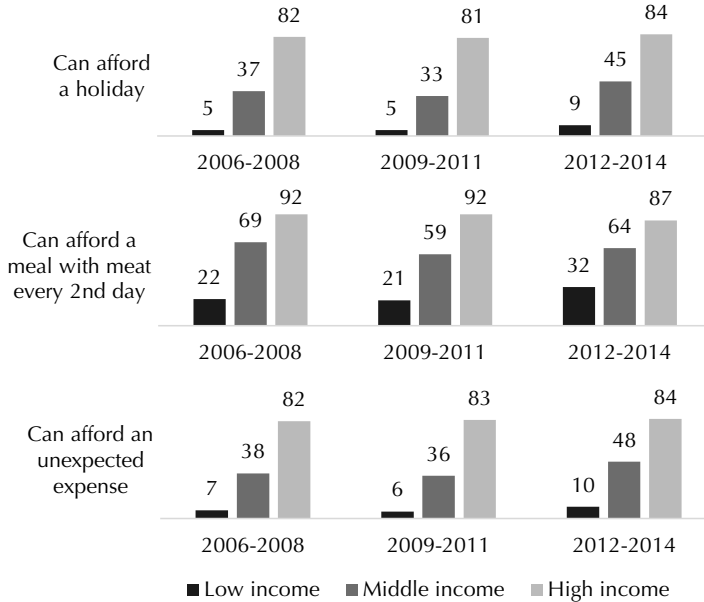


Figure 3: Affordability of consumption per income group

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, 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 2008.⁷

⁷ Eurostat (2015). Quality of Life. Facts and Views. Eurostat Statistical Books, Luxembourg.

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.

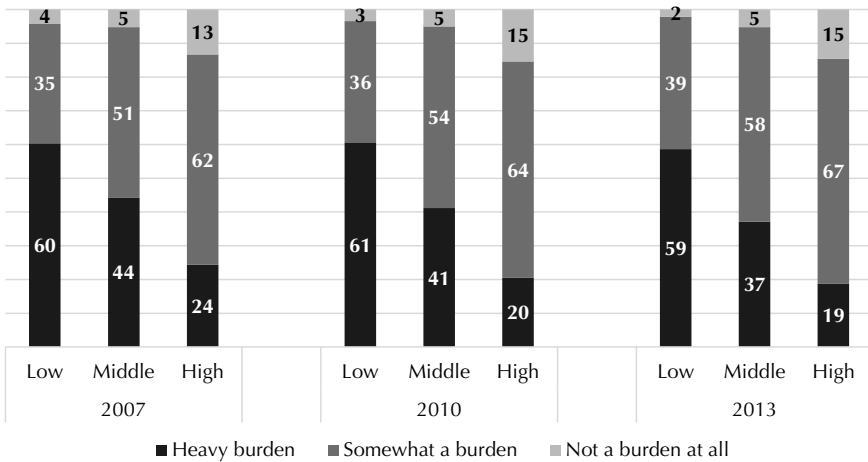


Figure 4: Influence of dwelling expenditures on household financial situation

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%.⁸

Particularly vulnerable are households of pensioners living alone in their own dwelling. 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 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.⁹ 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 children¹⁰.

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

⁸ Eurostat (2017). Housing Conditions. Retrieved from http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_conditions

⁹ Eurofound (2016). The gender employment gap: Challenges and solutions.

¹⁰ Hofäcker, D., Stoilova, R. & Riebling, J.R. (2013). The Gender Division of Paid and Unpaid Work in Different Institutional Regimes: Comparing West Germany, East Germany and Bulgaria. *European Sociological Review*, 29(2), 192-209.

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.¹¹

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.¹² 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 weeks¹³). Further possibilities for a better work-family balance are generally limited: part-time employment is virtually non-existent in Bulgaria¹⁴, 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.¹⁵

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 the ILO, the country scores below the European median in terms of legal provisions and regulations governing the termination and protection of work contracts.¹⁶ In

¹¹ Hofäcker et al. (2013); Eurofound (2017). Work-Life Balance and Flexible Working Arrangements in the European Union. Eurofound, Dublin.

¹² European Commission (2013). The Current Situation of Gender Equality in Bulgaria – Country Profile. Directorate-General Justice, Unit D2 Gender Equality.

¹³ Jurviste, U., Prpic, M. & Sabbati, G. (2016). Maternity and Paternity Leave in the EU. At a Glance. European Parliamentary Research Service (EPRS).

¹⁴ National Statistical Institute (2017). Employed and Employment Rates – National Level. Statistical Regions. Districts. Retrieved from <http://www.nsi.bg/en/content/6500/employed-and-employment-rates-national-level-statistical-regions-districts>

¹⁵ Eurofound (2017). Work-Life Balance and Flexible Working Arrangements in the European Union. Eurofound, Dublin.

¹⁶ International Labour Organization (2015). Employment Protection Legislation: Summary Indicators in the Area of Terminating Regular Contracts (Individual Dismissals). International Labour Office, Geneva.

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.¹⁷

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.¹⁸ 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 €800.¹⁹ 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 sec-

¹⁷ National Statistical Institute (2017). Employed and Employment Rates – National Level. Statistical Regions. Districts. Retrieved from <http://www.nsi.bg/en/content/6500/employed-and-employment-rates-national-level-statistical-regions-districts>

¹⁸ National Social Security Institute (2016). Unemployment Benefits. Retrieved from <http://www.nssi.bg/en/faqs/faqs-2>

¹⁹ National Statistical Institute (2017): Statistical Bulletin for the Registered Unemployed with Right to Unemployment Benefits in June 2017. NSI, Sofia.

tor. 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.

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	Middle	High
2006 - 2007			
Low-income group	69	30	1
Middle-income group	20	72	8
High-income group	5	54	41
2008 - 2009			
Low-income group	77	22	1
Middle-income group	16	81	3
High-income group	2	46	51
2010 - 2011			
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 compares intergenerational mobility patterns across the member countries of the European Union.²⁰ Examining absolute mobility for three cohorts born respectively between 1927 and 1946, 1947 and 1964, and 1965 and 1977 shows that earlier cohorts experienced more upward than downward mobility. For the latest cohort (born in the period 1965–1977) this pattern has changed, mean-

²⁰ Eurofound (2017). Social Mobility in the EU. Publication Office of the European Union, Luxembourg.

ing 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 2001.²¹

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 €320.²² With that, Bulgaria has a comparably low salary-pension replacement rate (0.41 in 2015), meaning that pension income only inadequately replaces pre-retirement income²³. This results in a situation where the share of older

²¹ Hertz T., Meurs, M. & Selcuk, S. (2007). *The Decline in Intergenerational Mobility in Post-Socialist Bulgaria*. Department of Economics Working Paper Series, No. 2007-14. American University, Washington, DC.

²² Boshnakov, V., Dimitrova, D., Draganov, D., Tosheva, E. & Tasseva, I. (2012). *EUROMOD Country Report – Bulgaria*. EUROMOD (F6.0).

²³ European Commission (2017). *Adequacy and Sustainability of Pensions*. European Semester Thematic Report.

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.

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.²⁴ 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).²⁵

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.²⁶ 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). These districts are also

²⁴ Asenova, D. & McKinnon, R. (2007). The Bulgarian Pension Reform: Post-Accession Issues and Challenges. *Journal of European Social Policy*, 17(4), 389-396.

²⁵ Eurostat (2016). Old-age-dependency Ration. Retrieved from <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde510&plugin=1>

²⁶ Institute for Market Economics (2016). The Current State and Trends in Regional Development: A General Review. Retrieved from http://www.regionalprofiles.bg/en/summary_2016.

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.²⁷

Household composition

Figure 5 shows the percentages of households belonging to each of the three income classes—both over time and over household composition.

²⁷ Stanilov, K. (ed.) (2007). *The Post Socialist City: Urban Form and Space Transformations in Eastern and Central Europe after the Socialism*. University of Cincinnati, OH, Springer.

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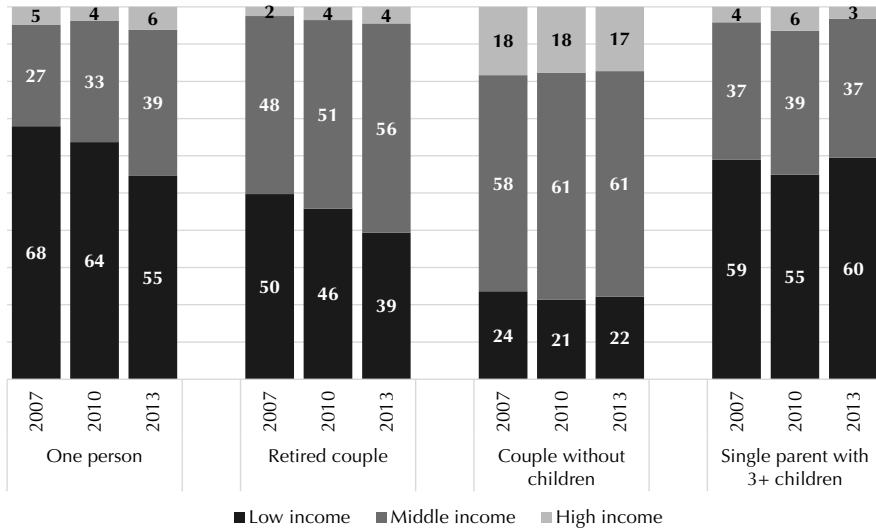


Figure 5: Size of income classes per type of household

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

From Figure 5 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*. Women from ethnic minority groups, especially Roma women, as well as low-educated

women, have considerably higher chances for a second and third child.²⁸ 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.²⁹ Although this satisfaction varies somewhat across income classes, it remains at a relatively low level in each class (see Figure 6). 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.

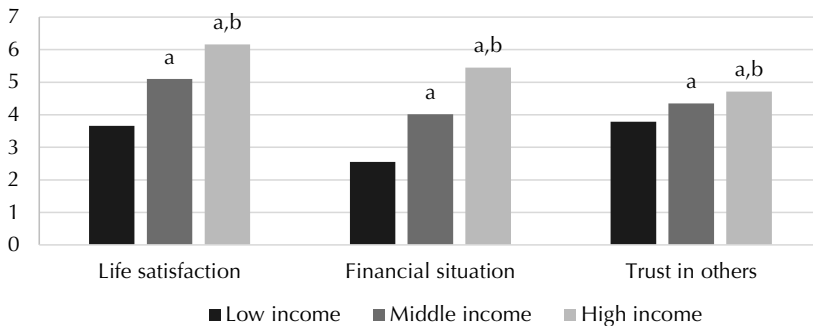


Figure 6: Life satisfaction, finances and trust per income group

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

²⁸ Dimitrova, E. (2012). Stratifying Reproduction. Social Inequalities and Second Birth in Bulgaria after 1990. *International Journal of Sociology* 42(3), 34-53.

²⁹ Eurostat (2015). Quality of Life. Facts and Views. Eurostat Statistical Books, Luxembourg.

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. 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.³⁰

As known from the vast literature on subjective well-being, the way individuals perceive and evaluate their situation does not result from the factual circumstances, but is due to a comparison of their own standing to that of others.³¹ 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 why 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

³⁰ Eurostat (2015).

³¹ Easterlin, R. (2001). Income and Happiness: Towards a Unified Theory. *The Economic Journal*, 111, 465-484.

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.³² 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.³³ 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.³⁴

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.³⁵ Overall, this makes for a situation of general dissatisfaction, mistrust and uncertainty.

As demonstrated in Figure 7, the dissatisfaction of Bulgarians with politics is common for all social classes. On average, all three income groups express

³² Transparency International (2017). Corruption Perception Index 2016. Transparency International, Berlin.

³³ Transparency International (2011). National Integrity System Assessment. Bulgaria. Country Report.

³⁴ Rothstein, B. (2011). *The Quality of Government. Corruption, Social Trust, and Inequality in International Perspective*. University of Chicago Press.

³⁵ Shentov, O., Todorov, B. & Stoyanov, A. (2007). *Organized Crime in Bulgaria: Markets and Trends*. Center for the Study of Democracy, Sofia.

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.

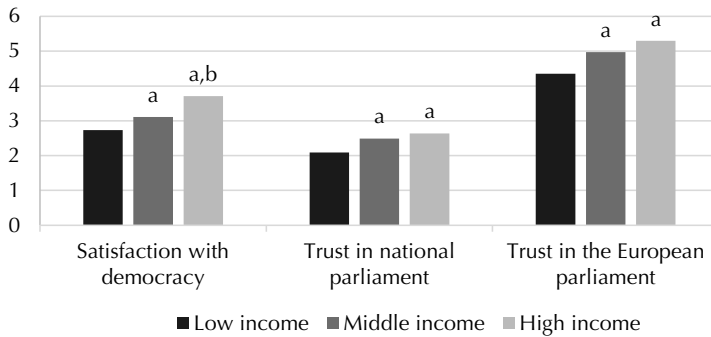


Figure 7: Trust in political institutions

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 Euro-

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pean People's Party (EPP). As shown in Figure 8, 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.

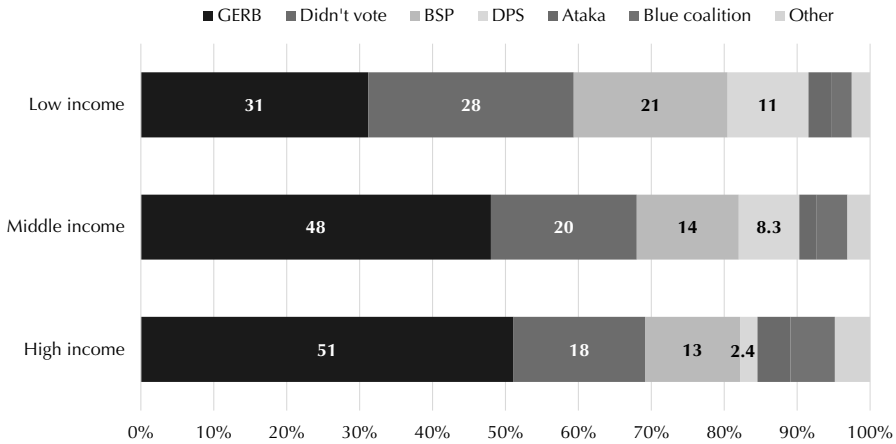


Figure 8: Self-reported voting by income group

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 ESS survey only 2% of the people admit to 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 ATAKA, 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.³⁶ 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.

³⁶ Kolarova, R. (2017). Right-Centrist Formations [Десните – Делене и събиране на празни черупки?]. Retrieved from <http://kultura.bg>

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.³⁷ 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 (FDI). This would facilitate economic growth and modernization and help the country to cope better with the challenges of globalization.

³⁷ Zaiceva, A. & K. Zimmermann (2012). Returning Home at Times of Trouble? Return Migration of EU Enlargement Migrants during the Crisis. IZA Discussion Paper No. 7111.

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

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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.

7

THE FORGOTTEN MIDDLE

Developments in the Middle Segment of Dutch Society

Godfried Engbersen*

In the Netherlands, there is no 'fall' or 'hollowing out' of the middle class in any way that is often claimed. The majority of the middle groups manage to maintain their position, but it does take more effort: they have to work harder and accept more uncertainty. In addition, there is a vulnerable middle segment that has to deal with social decline. In order to reduce the vulnerability of middle groups and improve its stability, the government should focus on reducing uncertainty. These are the main results from the report *The Fall of the Middle Class? Stability and Vulnerability in the Middle Segment of Society*, issued by the Netherlands Scientific Council for Government Policy (WRR)¹.

The Fall of the Middle Class? provides insight into the changes in the middle segment of Dutch society since the 1970s. Relatively little is known about the position of persons belonging to the middle groups. This applies not only to the Netherlands, but also to other European countries. Atkinson and Brandolini

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¹ Engbersen, G., E. Snel, & M. Kremer. (ed.) (2018) *The Fall of the Middle Class? Stability and Vulnerability in the Middle Segment of Society*. The Hague: WRR.

speak of "the forgotten middle".² In this chapter I will not elaborate on the operationalisation of the middle class. For that I refer to Box 1. I will not elaborate on the specific empirical results of *The Fall of the Middle Class*? For that I refer to Box 2. What I would particularly like to draw attention to are the institutional changes that have made the position of middle groups more uncertain, and give policy directions.

Upward and downward social mobility

The middle segment of society has something to gain and something to lose. This is the distinguishing feature of this category compared to groups located at the top or bottom of the class structure. The highest class can afford to lose some, and the underclass is mainly focused on daily survival.³ Middle groups want to improve or consolidate their position and avoid downward social mobility.

For the post-war Dutch society, middle groups had something to gain over a long period of time. They climbed the social ladder and experienced an unprecedented material improvement in prosperity. They were able to improve their position through strategic investments (in education, home ownership and savings). Long-term planning was possible because of various institutional certainties: the security of work and a permanent job and the certainty that investments in education are worthwhile. In addition, there was a system of social welfare arrangements to reduce the risks of unemployment, the incapacity for work and illness.⁴ As a result, middle groups had a grip on their future and that of their children. The work they had to do to maintain or improve their social status was predictable and often rewarding.

² Atkinson, A. & A. Brandolini (2013) 'On the identification of the middle class', pp. 77-100 in J. Gornick & M. Jäntti (eds.) *Income Inequality: Economic Disparities and the Middle Class in Affluent Countries*, Stanford: Stanford University Press.

³ Schimank, U., S. Mau & O. Groh-Samberg (2014) *Statusarbeit unter Druck? Zur Lebensführung der Mittelschichten*, Basel: Beltz Verlag. Standing, G. (2011) *The Precariat: The New Dangerous Class*, London & New York: Bloomsbury Academic.

⁴ Van Kersbergen, K. & B. Vis (2016) *De verzorgingsstaat*, Amsterdam: Amsterdam University Press.

Box 1: Who are the middle groups in the Netherlands?

The societal middle is too heterogeneous and too broad to speak of 'the' middle class or 'the' middle group. That is why we speak of the middle segment or of middle groups. Who belongs to the middle segment is the subject of scientific and social debate. We look at the middle segment through three lenses: education, profession and income.⁵

- Those with intermediate education are persons with a MBO (senior vocational education), HAVO (general secondary education) or VWO (pre-university education) diploma. One third of the Dutch population between 25 and 65 years old has an intermediate education (2011 figures).⁶
- Intermediate professions are routine service professions (administrative, sales, care), small employers, the self-employed and farmers, and supervisors of manual labour ('foremen') and highly skilled manual labour. One third of all workers aged between 25 and 65 have a middle occupation (figures for the period 2009-2014).⁷
- The middle-income households are households with a household income between 60 percent and 200 percent of the median income. Based on gross household incomes, middle-income households make up 57 percent of all households. Based on net household incomes (after social contributions and taxes) middle-income households make up 66 percent of all households. Based on standardised household incomes (adjusted for differences in household size and composition), middle-income households make up 77% of all households (figures from 2014).⁸

However, the self-evident nature of social mobility and the associated optimism about progress has come to an end. This is not only the case in the

⁵ Engbersen, G., E. Snel, & M. Kremer. (ed.) (2018) *The Fall of the Middle Class? Stability and Vulnerability in the Middle Segment of Society*. The Hague: WRR.

⁶ Tolsma, J. & M. Wolbers (2017) 'Ontwikkelingen in de maatschappelijke positie van middelbaar opgeleiden in Nederland', pp. 90-113 in G. Engbersen et al. (red.) *De val van de middenklasse? Het stabiele en kwetsbare midden*, Den Haag: WRR.

⁷ Ganzeboom, H. B.G. (2017) 'Polariseert de beroepshiërarchie en verdwijnt de middenklasse?', pp. 115-141 in G. Engbersen et al. (red.) *De val van de middenklasse? Het stabiele en kwetsbare midden*, Den Haag: WRR.

⁸ Salverda, W. (2017) 'Hollen om stil te staan? Tweeverdieners en de Nederlandse middenklasse sinds 1990', pp. 143-174 in G. Engbersen et al. (red.) *De val van de middenklasse? Het stabiele en kwetsbare midden*, Den Haag: WRR.

Netherlands, but in many other European countries.⁹ Characteristically, middle groups now fear social decline. In France one speaks of *la peur du déclassement*¹⁰ and in Germany of *Abstiegsgangst*¹¹. This change is the result of institutional changes that make life more uncertain, unpredictable and harder to plan. Although these developments are not specific to the middle groups, they are explicitly confronted with them – more so than other categories in society.

The middle segment as a cyclist: keep pedalling or fall down

The empirical findings show that it has become more complicated to produce a typical middle class biography (see Box 2). Schimank et. al. use the metaphor of the cyclist.¹² A cyclist who lets his or her feet rest on the pedals eventually falls over. The same applies to middle groups that are unwilling or unable to invest constantly in economic and cultural capital. They are therefore at risk of social decline. Whereas in the past obtaining a diploma and obtaining a permanent job formed a solid basis for a middle class existence, this is no longer the case. Intermediate groups need to be constantly alert and willing to invest by changing jobs, using two incomes, retraining in good time, combining work and care to consolidate their position. Unlike in the post-war period, in order to remain in cycling terms, they must continue to pedal hard in order not to fall back.

This need for permanent "status work" stems from various changes that threaten the socio-economic position of the middle segment now and in the future. We focus on four institutions that once provided the foundation for a middle class existence: permanent employment, the value of an education, the benefit of government provisions, and stable family relationships. The changes

⁹ Mau, S. (2013) 'European Middle Classes in Trouble?,' *Perspectives on Europe* 43, 1: 27-31.

Vaughan-Whitehead, D. (red.) (2016) *Europe's Disappearing Middle Class? Evidence from the World of Work*, Cheltenham: Edward Elgar Publishing Limited.

¹⁰ Maurin, E. (2009) *La peur du déclassement. Une sociologie des récessions*, Paris: Le Seuil. Peugny, C. (2009) *Le déclassement*, Paris: Grasset.

¹¹ Lengveld, H. & J. Hirsche (2009) 'Die Angst der Mittelschicht vor dem sozialen Abstieg. Ein Längsschnittsanalyse 1984-2007', *Zeitschrift für Soziologie*, 38, 5: 379:398. Mau, S. (2012) *Lebenschancen. Wohin driftet die Mittelschicht?*, Berlin: Suhrkamp.

¹² Schimank, U., S. Mau & O. Groh-Samberg (2014) *Statusarbeit unter Druck? Zur Lebensführung der Mittelschichten*, Basel: Beltz Verlag.

that occur within these institutions have consequences for the position of middle groups, but not exclusively for them.

**Box 2: The main findings of *The Fall of the Middle Class?*
(Engbersen et al 2018)**

- The social centre of society is too heterogeneous and too broad to speak of "the" middle class or "the" middle group. That is why we speak of the middle segment or of middle groups.
- The optimism for progress of middle groups has come to an end. Middle groups must exert additional effort to maintain their position and prevent downward social mobility.
- Many middle groups in the Netherlands are equipped to meet modern requirements of employability and resilience and are therefore able to maintain their middle position.
- The main threats to the middle segment are: (1) the diminished value of secondary education, (2) the disappearance of routine administrative functions and the growth of low-paid service jobs, and (3) a declining middle segment based on market or gross incomes.
- In the middle of society there is a sub-segment that is threatened. This vulnerable segment mainly consists of citizens with a vocational (MBO) degree who have a routine, administrative job or a nursing or service profession. They are more likely to lose their jobs or have a low income. If additional income is lost, for example due to the loss of a partner's job, downward social mobility quickly becomes a reality.
- In their views on political and social issues, workers with a vocational (MBO) degree have become very similar to lower educated people. This also applies to feelings of unease and the feeling of having no grip on one's own future. They are very critical of immigration, open borders, and have little faith in the European Union and the Dutch parliament.

Increased job insecurity

A first development is the *growing insecurity of work life*. Getting a good job does not guarantee a carefree future. Increasingly, middle groups have an employment contract with a temporary duration. A 'job for life', the old ideal of the middle class, is no longer a reality. This uncertainty is exacerbated by the

strongly developed trend in the Netherlands towards *more flexible labour*¹³. Currently, a quarter of all employees in the Netherlands work in a flexible employment relationship, i.e. with a fixed-term employment contract and/or a non-fixed number of working hours per week. Moreover, the proportion of self-employed (with or without staff) in the Netherlands has grown strongly. In the third quarter of 2016, more than a million people were self-employed (whether or not next to a job).

The result of both trends is that the proportion of employed people with a permanent employment relationship has been declining for decades: from 74 percent in 2003 to 62 percent in 2015. Although this trend towards more flexible employment is stronger among the low-skilled than among the middle-skilled, the share of flexible workers (temporary work, variable weekly hours or self-employed) among the middle-skilled rose from 25 percent to 37 percent between 2003 and 2015. This trend is stronger among young adults (especially among professional beginners) than among older workers.

Reduced value of secondary education

A second trend facing the middle segment is the *diminished value of (secondary) education*: technological developments (automation) on the one hand, and competition from higher educated people working below their level on the other, mean that middle educated people increasingly end up at lower professional levels. The achieved professional level of secondary school graduates has dropped significantly more over the past decades than among the low-skilled.¹⁴ The two categories have become more similar in terms of professional level, while the distance to the professional level of the higher educated has increased.

We do not know whether this trend will continue in the future. Further automation and digitisation may lead to the disappearance of more manual and routine administrative functions that previously required secondary edu-

¹³ Kremer, M., R. Went & A. Knottnerus (red.) (2017) *Voor de zekerheid. De toekomst van flexibel werkenden en de moderne organisatie van arbeid*, Den Haag: WRR.

¹⁴ Tolsma, J. & M. Wolbers (2017) 'Ontwikkelingen in de maatschappelijke positie van middelbaar opgeleiden in Nederland', pp. 90-113 in G. Engbersen et al. (red.) *De val van de middenklasse? Het stabiele en kwetsbare midden*, Den Haag: WRR.

cation.¹⁵ We can now see that happening in the banking and insurance sectors. Research by the OECD and McKinsey, which looked at the potential automation of sub-tasks in functions, concluded that almost all jobs will change in part, but that relatively few functions can be fully automated in the foreseeable future.

In other words, completing secondary or higher education does not guarantee a secure future. Many secondary school graduates either have to retrain, get a higher degree or compete with lower-skilled workers to stay in employment.

Less for the middle: reduced social protection

A third development that entails more uncertainty is the *decreasing social protection by the welfare state*. The structural reforms that have taken place since the end of the 1980s can be summarised with the concept of austerity and activation.¹⁶ In doing so, the government puts greater demands on the self-reliance of citizens.

This development may lead to a *residualisation* of welfare state arrangements. In other words, while the government guarantees social protection and provisions for the most vulnerable among citizens, the less vulnerable are expected to primarily solve their own problems. Welfare benefits are an example of such a residual provision: only households without other sources of income are eligible for it. There is also much talk of residualisation in public housing: housing corporations may only offer cheap rental housing for lower-income groups and not for middle-income households. This policy in particular threatens to leave middle groups at a standstill: they receive less protection from the welfare state, but are also less able to save themselves, such as in the upper segment.

This is also the conclusion of studies into the 'benefits of government'. Through social security and tax and contribution levies, the government makes

¹⁵ Went, R., M. Kremer & A. Knottnerus (2015) *De robot de baas: De toekomst van werk in het tweede machinetijdperk*. Den Haag: WRR.

¹⁶ Van Kersbergen, K. & B. Vis (2016) *De verzorgingsstaat*, Amsterdam: Amsterdam University Press.

a strong contribution to greater equality. If we look only at the secondary incomes of households, the higher incomes pay more and receive less. The reverse applies to lower incomes. However, if we look at the benefits that households derive from various government facilities (tertiary income), a different picture emerges.¹⁷ Some services (such as health care and social support) mainly benefit lower incomes, while they also have to pay less personal contributions and receive care allowance. For other facilities (education, culture, but also the tax treatment of one's own home), the higher incomes in particular benefit from it. So, it is "Less for the middle", as the title of a study on this subject reads.¹⁸

Vulnerability and complexity of primary relationships

A fourth development that also affects middle groups is *the increased complexity and vulnerability of primary relationships*. In a relatively short period of time, the Netherlands has experienced a change from a traditional breadwinner's society to a society with a two-earner model, in which both partners combine their working careers and care. Reconciling two working careers and dividing care tasks is a complex task that is not without risks.¹⁹ A larger variety of household forms has also emerged. Households increasingly consist of one person and less often of couples with children.

The income position of households is closely linked to their type of household. Higher income groups mostly consist of couples or families with children and often combine multiple incomes in the household; lower income groups are comparatively more often single or single parents and in both cases are single earners. However, this also makes higher and middle incomes more sensitive to the (financial) risk of divorce.

Available research shows that the number of divorces in the Netherlands has risen sharply since the early 1970s. In 1971, the total divorce rate was still 12 percent. By 2015, this had increased to almost 40 percent. In addition, the

¹⁷ Olsthoorn, M., E. Pommer, M. Ras, A. van der Torre & J.M. Wildeboer Schut (2017) *Voorzieningen verdeeld. Profijt van de overheid*, Den Haag: SCP.

¹⁸ Pommer, E. (red.) (2011) *Minder voor het midden. Profijt van de overheid in 2007*, Den Haag: SCP.

¹⁹ Beck, U. & E. Beck-Gernsheim (2002) *Individualization. Institutionalized Individualism and its Social and Political Consequences*, London: Sage.

phenomenon of divorce took on a different character: it used to occur more often in higher status groups, but nowadays there are more divorces in lower status groups and middle groups. Divorces and split-ups are a dominant cause of financial risk for the middle-income group, more so than for higher-income groups who have the financial means to sustain their standard of living, even after a split-up.

Reducing uncertainty

The empirical results of *The Fall of the Middle Class?* show that many middle groups in the Netherlands are well-equipped to meet the modern requirements of employability and resilience (see Box 2). They are able to maintain their relative position in society. However, in the words of Salverda, they must run faster to maintain their current position.²⁰ This is the image of the "stable middle". But realizing that stable position is accompanied by feelings of uncertainty.

A sub-segment in the middle is not able to achieve a stable position. This vulnerable segment consists mainly of people with a vocational training, a routine, administrative job or a job in the care or service care sector. That is the image of the "vulnerable middle". In this category there is a clear relationship between socio-economic vulnerability and feelings of uncertainty about one's own position.

Feelings of uncertainty also affect the views of middle groups about their own position, their attitude towards important social issues and their confidence in politics. Some striking findings from *The Fall of the Middle Class?* are:

- In recent decades, the middle-educated have become more intolerant of the European Union and ethnic minorities than the highly-educated.
- In terms of social unease (the extent to which people experience a society as unpredictable and meaningless), people with a vocational training (MBO) have become more similar to the lower-educated and less like the higher-educated.
- The views of people with an MBO-degree are very similar to those of the

²⁰ Salverda, W. (2016) 'Stagnating incomes and the middle class in the Netherlands: running to stand still?', pp. 396-440 in D. Vaughan-Whitehead (red.) (2016) *Europe's Disappearing Middle Class? Evidence from the World of Work*. Cheltenham: Edward Elgar Publishing Limited.

lower educated, for example when it comes to having a grip on one's own future, views on politics and government, trust in MPs and the European Union, and globalisation issues (including the immigration society).

The threats and uncertainties for middle groups justify a policy aimed at a greater *reduction in uncertainty*²¹. Behind these policy directions lies a more general philosophy about the government's role in contemporary society. The task of policy is on the one hand to *reassess institutions* so that they can give citizens more security and support if needed. On the other hand, policy needs *strengthen the resilience of citizens*: equipping them adequately for a more flexible labour market and for shaping their own lives²².

Reducing a number of uncertainties and strengthening the resilience of citizens helps them to shape their own lives. This also includes the social and economic significance of middle groups: the ability to look ahead, to postpone satisfaction of needs and to take risks.

Middle groups are also attributed an important role in the realisation of a stable and balanced political system and democratic power relations.²³ The classical reference is to Aristotle, who believed that a stable middle class was a necessary condition for achieving a balanced policy. In the Netherlands, there are currently no indications that middle groups are politically moving towards the extremes of the political spectrum. They do switch political parties more often than lower or higher status groups, but they continue to vote for parties in the middle.²⁴ The question is, however, whether this will continue to be the case in the future.

²¹ Cf. Kremer, M., R. Went & A. Knottnerus (red.) (2017) *Voor de zekerheid. De toekomst van flexibel werkenden en de moderne organisatie van arbeid*, Den Haag: WRR.

²² Wetenschappelijke Raad voor het Regeringsbeleid (WRR) (2013) *Naar een lerende economie*. Amsterdam: Amsterdam University Press.

²³ Pressman, S. (2007), 'The decline of the middle class: an international perspective', *Journal of Economic Issues* 41,1:181–200.

²⁴ Van der Meer, T. (2017) *Niet de kiezer is gek*, Houten: Unieboek/Het Spectrum.

Suggestions for policy

From the above, a number of logical policy recommendations follow, aimed at reducing uncertainties and strengthening the resilience of the middle segment of society.

First, promote more security in employment. Encourage employers to give more permanent contracts and make less use of flexible workers: work should only be flexible if it is appropriate to the nature of the work. And because flexible work will continue to exist, new safeguards are needed, such as a collective disability insurance and minimum rates for self-employed workers. In the longer term, a fundamental discussion is needed on the shape of social security, regardless of the form of contract.

Second, invest in education and training. Secondary-level workers benefit greatly from training to compete with higher-educated people, for example, by strengthening their ICT skills. Develop more opportunities for 'learning on the job' and lifelong learning facilities. At present, *life long learning* is mainly reserved for specific professional groups of higher educated people.²⁵

Third, maintain the redistributive effect of the welfare state. In the Netherlands we see an understandable trend to protect vulnerable groups, for example by means of income support. However, this has the side effect that middle groups feel proportionally more vulnerable. The redistributive effect of the welfare state must be maintained to prevent a decline in size and income of the middle segment.

Fourth, support families. Improving the opportunities to combine care and work increases the resilience of the middle groups. Stable and affordable child-care facilities, adequate leave arrangements and flexible working arrangements for men and women are essential for this.

²⁵ The Economist (2017) Lifelong Learning. How to survive in the age of automation, *The Economist*, Vol. 422, Number 9023, 14 - 20 January 2017.

The Middle

8

A POLITICS OF THE MIDDLE CLASS

Sybrand Buma *

In recent years, a stream of publications has appeared on the decline of the middle class, on the vulnerability of this group, but also on the anger. One of these is the report by the Netherlands Scientific Council for Government Policy (WRR), “The Fall of the Middle Class?”¹. But I would also like to mention the report 'Long live the difference' by our own CDA Research Institute (WI), which wrote already in 2015 about the marginalization of the middle class, as the biggest 'victim of continuing globalization'. Referring to Abraham Kuyper, the WI called the growing dividing lines 'the new social question of our time'.

Many of the publications zoom in on the economic uncertainty of the middle class. Their jobs are at risk; their pensions are losing value and they paid the highest price for the crisis through an increasing tax burden. This analysis is understandable in itself, but also superficial and incomplete. For if the uncertainty were exclusively economic, the loss of the middle class should be transitory now that we are doing better economically. The middle class would feel better once purchasing power recovered. But this is not the case.

* Sybrand Buma is the political leader of the CDA, the christian democratic party in the Netherlands. This chapter is an adaptation of the speech given on 16 April 2018 at the presentation of the book 'No Robots: The position of Middle Class Households in Nine European Countries'.

¹ WRR, *The Fall of the Middle Class? Stability and Vulnerability in the Middle Segment of Society*, The Netherlands Scientific Council for Government Policy, The Hague, 2018.

Loss of social cohesion

Beyond the economic causes we should be willing to look at the moral component, the consequences of individualization and the loss of social cohesion in our society. Globalisation has permanently turned the world's relations upside down and blurred national borders. Globalisation is a competitive battle, where capital flashes across the world at the speed of light and labour can be moved at the touch of a button to a country with lower wages. It is easier than ever for migrant labour to come to Europe and do the work. In doing so, globalisation draws sharp dividing lines: between winners and losers, between countries, between businesses and even between citizens in a society.

The WRR also sees these dividing lines. In the Netherlands, there is no 'fall of the middle class' yet, but the middle groups do feel the pressure to work harder and accept more uncertainty. "Due on the one hand to technological developments (automation), and to competition from people with higher education working below the level of their qualifications on the other, more and more people with intermediate education end up in lower-level occupations where they compete with lower educated people"². According to the WRR, the middle and lower educated have become increasingly similar. They compete for the same professions, while the distance to the higher educated increases. If the middle class ends up at the bottom, and the upper class gets further and further away, then you are no longer safely in the middle.

Not a purely economic problem

On the surface, the uncertainty seems to be an economic problem. But the problem goes deeper. It touches on feelings of trust, identity and a loss of pride and security. For the middle class, the perspective that their children will be better off is lost. It feels like that the winners are standing in front of an upward-sloping trajectory, while the middle class stands with the losers of globalisation on the edge of the abyss.

² Ibid. p27.

This distinction determines your view of the world: people who benefit from globalisation are open to further European integration, to the arrival of immigrants in the Netherlands and to an open economy. But for people who miss the connection, the downside is more salient. It is their jobs that are disappearing, they have to compete on the labour market with migrants from low-wage countries and it is their neighbourhoods that are changing as a result of the arrival of people from other cultures. If we do not pay attention to their concerns, do not take them seriously, then politicians should not be surprised that they lose the confidence of the middle class.

This loss of confidence in a better future is currently threatening the legitimacy of our democracy. Up to recently, social problems might have been reduced to economic ones. "It's the economy, stupid", said Bill Clinton. However, the rationale of the welfare state—increasing prosperity for everyone—did not increase confidence in the political system. Instead, it led to a more individualistic society, where people need each other less and less. We did not notice this when the economy was booming, and the government could uphold the illusion that we could solve all calamities with a financial arrangement. The focus on increasing prosperity was so successful that we began to believe in it. So much so that it seemed as if the essence of democracy was exclusively focused on this. But that is not the case. Democracy is not a business model for getting rich. For christian democrats, democracy is a means of ordering the political life, for the benefit of a good society. It is both for the good and and the bad times.

Individualisation.

If we want to understand the diminishing prospects of the middle class, we have to look beyond the economy, beyond the world of models and purchasing power. Under the influence of welfare-thinking and individualisation, we have lost the significance of collective structures that offered trust and security such as the church, the associations and the trade union. The family, where people care for each other selflessly, is also under increasing pressure in these hyper-individualised times. Loneliness, especially among vulnerable elderly people, is one of the poignant examples of this neglect in our society. We have forgotten

how important it is to put yourself at each other's service for free. In our neighbourhood. In our associations. At home and away.

To a large extent it was the traditional middle groups - the silent majority of our society - that carried these collective structures; selflessly and naturally. They formed the cement that maintained the structure of society. In the disappearance of the middle class, there is therefore a great danger of the further crumbling of our society.

A common home

In order to turn the tide, we must not repeat the mistake of using only economic measures to tackle the 'new social issue'. The solution does not lie with the government, which could distribute incomes in a different way. Not with the market, which can only improve consumptive experiences. The answer is found in a convincing approach that addresses the essence of society itself. A society is not successful because there is economic progress. A society only works when there is a sense of togetherness that offers a common prospect and promotes well-being in living-well together.

The research programme of the CDA Research Institute is titled 'For a common home'. In the introduction it states that we have lost sight of that common home: the awareness that we as people need each other and are dependent on each other. It is precisely in a world that is changing rapidly, with major challenges ahead—the climate, migration, terrorism—that a solid, common home is indispensable in order to face up to this uncertainty. In that house you can place a new bathroom, for comfort; and a new kitchen, for convenience. But that house is not a true home if the people who live in it do not sit together at the table. Having nothing to do with each other. In the end, all the luxury is of no use if people are lonely. Then you long to return to the little house where you once started. Without luxury, but where you had a good time together.

The idea of a common home goes beyond nostalgia. It is about a thorough renovation of the house. It offers shared values and shared institutions. A common purpose, an identity that makes you feel at home and a shared understanding of democracy. Anyone who really wants to do something to combat alienation, anger and indifference must start by strengthening society as a place where

people feel safe and at home again. Where they feel known and protected. This awareness also lies at the root of the Christian democratic movement.

Strengthening society

The 19th century saw an almost unstoppable economic growth, on paper. But even then many people fell between the cracks. Liberals proposed economic solutions: let the invisible hand of the market do its work, then it will be all right. Socialists thought in terms of the government, which had to distribute prosperity more fairly. But our Christian Democrat predecessors looked different. It started with a struggle for community and identity through our own schools. And they were ultimately concerned about a society of people who feel connected and could therefore build a better country together.

The strengthening of society is still the agenda of the christian democracy. It is the fundamental idea behind proposals as the alternative civilian service, the approach to loneliness, our commitment to security, nationally and internationally. It is behind our plea for a shared historical awareness, the binding power of our royal family and national anthem. But also behind our efforts for volunteers and carers, for a *right to challenge*, our proposals for families and families. To preserve our values and traditions and a fair economy that is not about figures behind the people but about the people behind the figures.

Finally, to restore confidence, politics must also look to itself. By not only listening to screamers and rioters, but by giving a voice to the middle class, to the silent majority of reasonable citizens, who contribute to a better society every day. By not getting bogged down in hyperboles, insults and suspicions, nor by focusing only on the inner circle. With weak and frivolous litigation against for political purposes. Democracy is not designed for entertainment purposes. It is a joint project that all citizens participate in. This calls for leaders who prefer to be blunt with the truth than be comforting with a lie. The task we face is huge. Solutions are not easy. And they are certainly not to be defined in terms of money. It is about building a good society. A common home where we are safe. Where we live together and *feel at home*.

The Middle

9

A EUROPEAN MIDDLE CLASS WITH SPACE TO BREATHE

Eoin Drea*

Compared to the 18 months preceding the 2014 elections, the mood music in Brussels could scarcely be more different. But while growth and employment are increasing, vast swathes of the established middle classes have lost faith in their ability to achieve a higher standard of living and to match the social mobility achieved by preceding generations. Increasingly topics such as globalisation, free trade, immigration and even stable political systems are viewed as tools of the “elite” designed to prevent progress for working and middle class families. Politically, this has manifested itself in a fracturing of the traditional party political system and the rise of a protectionist, combative populism.

To confront these challenges, this chapter identifies five social and economic priorities that should form an important element of centre right policy formation. With the ultimate objective of rejuvenating an aspirational middle class in Europe, we argue that only by bridging the gap between the rhetoric of a digitally driven, flexible economy and the day to day realities confronting middle class families can the centre right hope to increase working and middle class

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support in the 2019 elections and beyond. Such an approach is based on the core social market economy principle of seeking to conciliate economic freedom with social security, while maintaining a high level of personal responsibility and subsidiarity.

Rejuvenating an aspirational middle class

Much of the debate regarding the position of the middle class – in both academia and the media – has focussed on the issue of perceived income inequality.¹ However, such a narrow analysis fails to grasp the wider factors underpinning this increasing middle class malaise. The ability of more populist political movements to gain voters among the middle classes symbolises a deeper dissatisfaction, a dissatisfaction that has a considerably wider basis than the tight confines of economic data. It is also clear that perceptions of relative decline are an important component in fuelling this wider sense of insecurity.

In a broad context, vast swathes of the established middle classes have lost the belief in their ability to achieve a higher standard of living and offer better opportunities for their children. Although Europe's well developed welfare states have mitigated the worst effects of income inequality, it is clear that a perception now exists which emphasises inequality of opportunity and lack of social mobility. This self-perception is based on the understanding that *“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”*.²

Politically, this manifests itself in parties offering a more protectionist, combative view of many of the factors which facilitated Europe's development as the largest concentration of wealth in the world. Now topics such as globalisation, free trade, immigration and even stable political systems are viewed as tools of the “elite” designed to prevent progress for working and middle class families. This is the “politics of fear” which has found fertile ground over the past decade

¹ Within Europe the picture regarding income inequality is decidedly mixed. Z. Darvos and Guntram B. Wolff, *An Anatomy of Inclusive Growth in Europe* (Brussels, Bruegel, 2016) found that in general strong welfare states have offered protection against inequality. However, J. Goebel, M.M. Grabka and C. Schroder, *Income Inequality and Risk of Poverty* (Berlin, DIW Economic Bulletin 25, 2015) found increasing levels of income inequality in Germany between 2000 and 2015.

² A.H. Siegmann and M. Schafer (eds.), *No Robots*, 119.

in a Europe largely characterised by very low economic growth, high unemployment and an increasing generational divide between younger citizens and those approaching or enjoying retirement.

In this context, many people understandably desire to protect their position, rather than risking to aspire for even greater social mobility. A situation often compounded by static socio-economic models (e.g. social security, pensions) which no longer accurately reflect the working realities experienced by millions of middle class Europeans, but which are viewed by younger workers as tools to protect the now unaffordable privileges granted to earlier generations.

Policies for real people: bridging the gap between rhetoric and reality

To counter this narrative, centre right political forces in Europe require more than the well-practiced defence of existing policies on trade, economy and social cohesion. They also require a more balanced palette of socio-economic policy options, policies which are not automatically viewed by middle class families as simply protecting the rights of big businesses and retirees. As noted by the International Monetary Fund (IMF) “this is not about one age group against another”, but rather involves building a socio-economic model that works for everybody.³ As long time advocates of fair trade, fiscal responsibility and the social market economy the centre right needs to develop real policies that meet the day to day concerns of middle class Europeans. Or, as in the words of Irish Prime Minister Leo Varadkar, to help people “who get up early in the morning” and work hard to support their families.

Our ongoing research – in association with our member foundations – highlights a variety of socio-economic factors which impact upon the position of working and middle class families. And while differing national issues will always be relevant, there are a number of broader factors which should be specifically addressed in the period to 2019 and beyond. These issues impact upon working families on a day to day basis and cross economic and social boundaries. They symbolise how the reality of life for many middle class families is far

³ C. Lagarde, ‘A Dream Deferred: Inequality and Poverty Across Generations in Europe’, *International Monetary Fund (IMF)*, 24 January 2018.

removed from the often lofty rhetoric used by political parties when it comes to advocating workplace flexibility, the digital economy and gender equality.

This new middle class reality is predominantly a dual earner model (i.e. both partners working) and faces the challenges associated with childcare, schooling, the housing market (either long term renting or buying), job security and other financial worries on a regular basis. Often it is these issues – and the time, money and energy required to confront them – which act as a contemporary brake on the mobility and aspirational nature of the middle class.

Therefore, policies need to be developed that deal directly with these issues. Based on our ongoing research, I highlight the following five core factors which need to be addressed by centre right parties during the course of the 2019 election campaign and beyond. The clear alternative is increased social, economic and political fragmentation in the short to medium term⁴.

A. Rebuilding financial and employment security

As noted, middle class families increasingly view their financial position as less secure than preceding generations. This feeling has been exacerbated over the past decade due to a combination of very low income growth, high levels of personal taxation and a sense of increased employment insecurity resulting from both technological advance and poorly functioning economies. This increased financial insecurity is also evident in states where housing affordability is a big issue, both in terms of property supply and in terms of being unable to save the required down payment or deposit to purchase a property. Where these problems are prevalent, the middle class outlook is negative. Asset accumulation, or rather the inability to save for a rainy day or retirement due to countless other day to day financial commitments, is an increasing characteristic of middle class social groups⁵. In most EU states, it is this same middle class who are also burdened with financing “pay as you go” social security systems notwithstanding

⁴ As specifically highlighted in a session called *Squeezed and Angry: How to Fix the Middle-Class Crisis*, World Economic Forum Annual General Meeting, 18 January 2017.

⁵ A *YouGov/The Times* survey found that 31% of the ABC1 social group in the UK – the group which includes professional, junior managerial and administrative workers – would find it difficult to pay a sudden bill of £500 or more, 8 June 2016.

the likely decline in the level of benefits available to them in the decades ahead. This is an unsustainable situation.

Underpinning this level of financial anxiety is the uncertainty of how technology, less stable employment patterns and globalisation are interacting to polarise the jobs market. There is increasing evidence which indicates that the “rapid changes brought about by technology are hollowing out the lesser skilled routine jobs such as bank clerks or public sector workers – the ones who counted on their steady jobs to fund their children’s education and a hopefully comfortable retirement”.⁶ This “hollowing out” of traditional middle class occupations has not only a detrimental financial impact for those workers involved, but also weakens a more general middle class consensus which traditionally binds together the development of political rights and the democratic rule of law.

B. Countering generational inequality and the expectations dilemma

Socially, the economic crises of the past decade has significantly increased the inequality between generations in Europe.⁷ Younger people’s incomes have remained static since 2007 while those 65 years and older have enjoyed a 10 per cent increase.⁸ The often blanket protection afforded to retirees – by governments on both the right and left of the political spectrum – has resulted in a socially unsustainable distribution of wealth (and opportunity) in many member states. This polarisation is evidenced in a variety of socio-economic indicators (e.g. higher unemployment, lower income) which contribute to the broader sense of financial insecurity highlighted above. This level of generational inequality will, in time, fatally undermine the viability of the European social security model while also leading to a “lost generation” of Europeans who have already started to view established political parties with disdain.⁹

⁶ P. Hollinger, ‘A Hollowing Middle Class’, Organisation for Economic Co-operation and Development (OECD), Yearbook 2012.

⁷ See T. Chen et al., ‘Inequality and Poverty Across Generations in the European Union’, *IMF Staff Discussion Note*, January 2018.

⁸ Lagarde ‘A Dream Deferred’.

⁹ Mario Draghi, President of the European Central Bank, Speech entitled ‘The Policy and the Role of the European Central Bank during the Crisis in the Euro Area’, *Katholische Akademie*, Munich, 27 February 2013. Draghi specifically highlighted the social impact of the recent financial crises.

On a broader social level, such a level of inequality is fuelling a real expectations problem at both ends of the demographic spectrum. Italy provides a clear example of how this expectations dilemma is fuelling discontent with mainstream political parties. For the young, there is a clear understanding of how serious the problems are due to the difficulty in finding secure employment and the resultant delays in establishing independent family units. They understand that they will probably not enjoy the employment or retirement security available to their parents. And their parents' generation find it hard to understand that those privileges are now impossible to sustain for younger generations. The opposition to the much needed pension reforms introduced by the Monti government during the recent crisis highlights just how difficult it can (and will be) for politicians to challenge the entitlement perception of older generations.

C. Restarting social mobility and equality of opportunity

A key component of traditional middle class communities has been the belief that hard work and educational attainment will provide the basis of a higher standard of living. It embeds the idea that there are opportunities to move up the social ladder. Within Europe, and as highlighted in our collaborative research, there exists a very mixed picture. While countries such as Finland, Ireland, Netherlands and Poland exhibit high or rising levels of social mobility, there exists clear impediments to social mobility in many larger member states including France, Germany, Italy and Spain¹⁰.

There is an increasing perception among middle class families that their children will find it more difficult to achieve the level of social mobility (and material progress) that they themselves experienced during their working lives. There is a growing worry that Europe is sleepwalking into a similar situation as the United States where social mobility has stalled, or is perhaps already declining.¹¹ A situation exacerbated by a clear decline in educational mobility and increasing educational segregation which mirrors geographical trends and is not primarily

¹⁰ A.H. Siegmann and M. Schafer (eds.), *No Robots*, 6.

¹¹ For a broad overview see R.D. Putnam, *Our Kids: The American Dream in Crisis* (New York, Simon & Schuster, 2015).

driven (as many Europeans erroneously believe) by the cost of higher education.¹² Europe's more traditional focus on wealth redistribution is no solution to this problem of "inequality of opportunity", particularly for students from disadvantaged communities. Nor does it help middle class families in their often desperate search for "good schools". In fact, it could be argued that the current structure of the university system in many EU member states is contributing to a whole variety of other major social issues.¹³

D. Balancing the working life with affordable, accessible and flexible childcare

Access to affordable, flexible and high quality childcare is a key worry (both practically and financially) for middle class parents throughout Europe. In the dual earner model now prevalent, it is a major source of parental stress, a key component of the work-life balance debate and, in many countries, a major source of financial expenditure.¹⁴ The importance of this topic should not be underestimated for middle class families nor should policy discussions on this subject become the sole preserve of those on the left of the political spectrum.

As key proponents of individual choice and personal responsibility, the centre right requires policies which allows parents the choice to access flexible childcare facilities that meet their personal preferences. The objective is not to propose common systems throughout Europe, but rather facilitate parents' preferences about if, when and how to access such services. Such policies would also be inclusive of cultural norms and the importance placed in some states on the more informal community and family role. By developing such a childcare framework the centre right can play the central role in helping to confront two major socio-economic challenges posed by the current patchwork of childcare services for the middle classes across Europe.

¹² For a personal example see J.D.Vance, *Hillbilly Elegy: A Memoir of a Family and Culture in Crisis* (New York, Harper, 2016).

¹³ H. Enderlein and J. Pisani-Ferry, 'Reforms, Investment and Growth: An Agenda for France, Germany and Europe', 27 November 2014, 19. They specifically note how the duration of higher education in Germany may be impacting upon the fertility rates of highly qualified German women.

¹⁴ In Ireland the average cost of full-time childcare is over 167 euros per week, *Irish Times*, 7 December 2016.

First, the accessibility, cost and quality of childcare facilities plays a role in the ability of parents (particularly mothers) to re-engage in the workforce and has a bearing on birth rates, family stress and financial anxiety. This is an important issue in Germany among other member states.¹⁵ Second, there is a clear body of evidence that childcare and early education services can play a vitally important role in narrowing the “opportunity gap” between children of differing social classes and, in turn, increasing later life outcomes and reinvigorating the concept of an aspirational working and middle class.¹⁶

E. “I’m just pregnant, not incapacitated”¹⁷ – the importance of gender equality
Put simply, improving gender equality in the labour market will create millions of additional jobs in Europe and significantly increase economic growth.¹⁸ The issue of increasing women’s participation in European labour markets is also directly relevant to the technological and demographic factors already impacting in many member states. Given that significant shortages of skilled labour may emerge in the future, activating the work potential of women by increasing gender equality is a key tool in ensuring sustainable growth. In terms of the middle class, which is now predominantly a dual earner model, achieving greater gender balance is vital in helping to combat family stress, financial anxiety and increase social mobility. Gender balance is vitally important in attempting to restore an aspirational middle class as a cornerstone of European society.

This is a complex issue which extends significantly beyond media friendly issues such as the gender pay gap. It includes issues such as education, childcare, taxation policy and wider social issues such as the role and expectations of women in society and the workforce. In reality, notwithstanding that young women obtain more years of schooling and tend to outperform young men in education, women still dominate in many poorly paid sectors of the economy,

¹⁵ In August 2013 Germany introduced a law guaranteeing every child over 12 months of age a slot at a daycare facility.

¹⁶ Putnam, *Our Kids*, 231.

¹⁷ New Zealand Prime Minister Jacinda Ardern, *Otago Daily Times*, 26 January 2018.

¹⁸ See the European Institute for Gender Equality, *Economic Benefits of Gender Equality in the European Union* (Luxembourg, 2017).

often on a part-time basis.¹⁹ This has follow on effects in areas such as female representation in publicly listed companies and in the political arena. It should be noted that supporting the evolution of greater gender equality does not represent a threat to societal norms at the national level. Rather this issue represents a belated requirement to fulfil a key founding principle of the EU relating to equality between men and women. It is an imperative that this principle be further developed, particularly in the dual income middle class model prevalent today.

The centre-right challenge: space to breathe for the middle class

For the centre right, the key challenge is to ensure that the traditional aspirations of the middle class – a job, children’s education, a secure retirement – can continue to be achieved in a landscape increasingly pockmarked by unemployment and financial uncertainty. How can these aspirations be rejuvenated in the digital age? What is required is a multi-faceted response which crosses the bounds of economics, politics and wider issues concerning a healthy functioning society. For this to occur a whole suite of independent, yet closely inter-linked, policies are required which meet the day to day concerns of middle class Europeans.

Whether it’s in Berlin or Bucharest, Riga or Rome it is the rejuvenation of an aspirational, socially mobile, more financially secure middle class which will largely determine the sustainability of Europe’s more recent positive economic performance. A more secure and confident middle class is key in confronting the perils of economic nationalism and populism.

¹⁹ For example, *The Pursuit of Gender Equality: An Uphill Battle* (OECD, Paris, 2017).

The Middle

10

CIVIL POWER AND THE VOCATION OF POLITICS

Jan Prij*

According to a common worldview we live in hard times of polarization and struggle. The current zeitgeist is 'angry, aggressive, brash, brutal' and President Trump embodies all these characteristics. The image of man is reductionist and the image of society and the associated political image is antagonistic: we live in a world of sharp dividing lines, mutual competition and struggle. Yet this is not the whole story or even the most important part of the story. The civil origins of the market, civil society and politics show us the way to a different vision of society. This vision is based on the power of cooperation, empathy and the pacification of contradictions. This is the connecting and civilizing force of the middle class.

Relational view of man as a correction to reductionistic thinking

According to a recent opinion poll, '*being nice*' is the bearer of a new political movement against increasing political contradictions¹. Traditionally there is a name for this political movement: civil society, with modal citizens who look beyond their own interest. That may be surprising. Until recently, the nuclear family was not taken very seriously as a source of civilization and civil values

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¹ Bex Coates, *Being Nice is the New Punk*, politics.co.uk. 21 november 2018.

(let alone as punky and rebellious towards the established order). The citizen was synonymous with a narrow minded character that had little more in mind than his strict short-term self-interest. He was also blind to his own miserable fate. Due to the oppressive institutions of bourgeois society, he did not see how the structural power relations in society determined the course of history. In fact, he was nothing more than a victim of the power of capital or but a slave of the state without any real impact on its political course. Only a revolutionary reversal of ownership could bring about substantial change.

We do not need to be a Marxist to see that reductionist and in essence materialistic views of mankind are still alive and kicking. The idea that man is a victim of social relations and can only be raised from his miserable fate by the elite is still a dominant social democratic view. In this vision, the citizen is only a citizen of the state (*citoyen*).

An equally misleading view of man is that he is self-made and master of his own destiny. He owes success and failure only to himself. He can work himself up and does not need others to do so. Faith in one's own power leads to ultimate freedom.

These two dominant images of humanity are materialistic and reductionist in nature: things are just as they are, they do not embody a hidden potential that could also refer to 'something else'. We are nothing else but our brain, the *homo economicus* or the Hobbesian wolf in sheep's clothing, to name a few well-known prototypes.

By reducing man to a one-dimensional being, we are doing ourselves a great injustice and are denying the core of our humanity. People are not things, and certainly not robots, as referred to in the title of the first CDA/KAS/WMCES-publication about the middle class². We are able to empathise and to imagine ourselves in the shoes of our neighbour.

The ability to sympathise with the fate of others and connect to them is crucial. It is the asset on which human coexistence and our economic and political order are based. Man is a responsible being. The way in which every hu-

² Arjen Siegmans and Mattias Schäfer (eds.). *No Robots, The Position of Middle Class Households in Nine European Countries*. The Hague, 2018.

man being responds to others is unique and his capacity to act cannot simply be reduced to simple uniform forms of behaviour. Because of their creative potential, people can respond in an unpredictable way to what happens to them.

We are now slowly discovering that the old school stereotypes do not fit anymore. We developed a mature self image instead. That we do not have full control of our own life, but also that we are not at the mercy of anonymous powers and forces. Instead, we increasingly experience that our life is intimately connected with that of others. Boundaries between 'I' and 'the other' have become blurred.

In today's global network society, we see that the consequences of global problems such as the climate issue and the issue of migration end up directly in our backyard. The dominant motto of the philosopher René Descartes (1569-1650) 'I think so I am' no longer works. We find out that we may have developed ourselves unilaterally, only our heads, not our bodies, hearts and souls. In encounters and confrontations with others, this side of ourselves is also appealed to.

We gradually discover with trial and error a more mature truth about ourselves: 'There are forces pulling at me, from the inside and outside, so I am. There is an appeal being made to me from different sides. How do I answer?' It is precisely these characteristics as responsible beings that make modal citizens connect with others. Other civic virtues such as *prudence*, *thrift*, and *hard work* (the so-called work ethic) arise from this. They embody an involvement felt with others and with their fate. From this perspective, citizens are not just slaves of the state's interests or a plaything of anonymous powers and forces, but men and women with a unique face who work together with others on what Abraham Kuyper once called 'the perfection of creation', in the humble knowledge that this could never entirely succeed.³

³ Abraham Kuyper, *The social issue and the Christian religion*. Address for the opening of the Social Congress on 9 November 1891, Amsterdam: Wormser, 1891, p.4

Civil society as an ideal

The anti-hierarchical and egalitarian ideal of society in which people are not the plaything of anonymous powers and forces goes back to a unique mental revolution in the history of mankind. Christianity is responsible for this mental upheaval in people's minds and hearts. Political philosopher Govert Buijs calls this the 'agapean revolution', after the Greek word 'agapè' for selfless love. Thinking in terms of equal partners, a deviation from the general human pattern, is "the historical expression of the Christian tradition"⁴. Not through a hierarchical power structure, but through another form of coexistence of equal partners, citizens who are 'involved', 'reliable' and 'cooperative' and need each other. He states that people often want to do something for someone else in the knowledge that they owe a debt to what they in turn have received, through others, their talents or social opportunities. This 'economy of abundance' is the source behind the human desire to contribute to the prosperity of others within a shared world on the basis of voluntary relationships in many domains of society (the market, civil society and politics), especially when this prosperity is threatened.

According to the apostle Paul, the involvement with others is what the Christian love of one's neighbour (agapè or caritas) is all about. This gave Christianity its unprecedented and universal power. From this *agapeic flow*, a civil cooperation experiment started in Europe with trial and error. This civil atmosphere is pre-eminently built on the premise that people not only pursue their self-interest, but are also focused on helping others.⁵ Civil society organisations have emerged that care for the sick and needy, but also markets and forms of organisation that have the provision of a service for the public good at its core. And a civil political order that is not built as a power empire, but as a continuous platform for discussion about the way in which society should be organised. Absolute claims of truth are not possible and nobody has a monop-

⁴ Govert Buijs in: 'Toekomst voor christelijk geïnspireerde politiek', *Christen Democratische Verkenningen*, Autumn 2012, pp.211-222.

⁵ Jeffrey. C. Alexander. *The civil sphere*, Oxford: Oxford University Press, 2006, p.3. And he adds to this: "Solidarity is possible because people are oriented not only to the here and now, but to the ideal, to the transcendent, to what they hope will be everlasting."

ly on the truth. There is an ongoing debate in society where the democratic rules of the game are accepted by everyone, but not the conclusions. Maintaining this "doctrine of differences" and ensuring that it does not succumb under the weight of absolute truth claims is what political life is about in a democratic constitutional state.⁶

Since Kant, peace has been the ultimate political ideal, an ideal that is beyond our reach but which is the engine for change for the better. The horizon is referred to by a religious term as 'Shalom'. Where Shalom reigns', says the American philosopher Nicholas Wolterstorff in his work *Until Justice* 'there we fulfil our responsibilities towards each other, nature and God'. But Shalom is more. It is only present when joy and happiness are experienced in relationships with others and when we experience existence as a precious and wonderful gift.⁷

This utopia of peace may sound quite idealistic, but it is realistic and real in its actual power. According to the philosopher Paul Ricoeur, the basis of this vision of peace is in fact a sense of injustice that citizens have as long as we live in a situations of war and violence.⁸

Markets have also been based on this civil core of mutual service provision. Worldwide, trade has contributed enormously to poverty reduction. It is therefore not the rejected of the earth who have brought about the engine of change for the better, but the civil bourgeois virtues, sense of responsibility and empathy for the fate of others.⁹ And the 'sense of the unjust' of citizens essentially means that it is not the elite who is the engine of progress, but the vision of peace in the hearts of ordinary citizens. Time and again, the powers that be de-

⁶ Erik Borgman, *Metamorfosen. Over religie en moderne cultuur*. Kampen; Klement, 2006, pp.11-13.

⁷ Quoted in: Bart Cusveller, "'Zwalustaarten": Samenhang in het werk van Nicolas Wolterstorff', in: Robert van Putten, Bart Cusveller en Rob Nijhoff (red.), *Denken om Shalom: De praktische filosofie van Nicolas Wolterstorff*, Amsterdam: Buijten & Schipperheijn, 2017, p. 194.

⁸ Bernard P Dauenhauer, *Ricoeur, the Promise and Risk of politics*, Lanham: Rowman& Littlefield Publishers, 1998, p.155.

⁹ See for her (sometimes too optimistic) trilogy : Deirdre M. McCloskey *The Bourgeois Virtues: Ethics for an age of Commerce*, Chicago and London, The University of Chicago Press, 2006; *Bourgeois Dignity. Why economics can't explain the modern world*. Chicago and London, The University of Chicago Press, 2010; *Bourgeois Equality How Ideas, not capital or institutions enriched the world*, Chicago and London, The University of Chicago Press, 2016.

fend the status quo against change, while citizens challenge it because they experience the situation as unjust.

The vocation of politics: make peace not war

From the perspective of its civil core, the ongoing vocation of politics is to make peace, live together with differences, compromise and pacify disputes. This is only possible from a political position that recognises the ambiguity and complexity of reality. This is a different positioning of politics and citizenship than has been the case since Plato (and as put in a modern guise by Hobbes¹⁰). Not a politics that revolves around struggle and guarding the hierarchical balance of power in the world. The citizens are not just subjects, but shape the good life together with others as equals and partners of each other.

Politics in this view is not the art of doing what is possible, but the embodied commitment to what is considered impossible by the official rulers, the so-called bosses of this world. In precisely this sense, politics is utopian.¹¹ The role of emotions, ideals, and what Martha Nussbaum calls *moral imagination*, is crucial.¹²

This is a different *ethos* from what is common in contemporary politics. To step into each other shoes is considered to be weird. Ridiculing each other's opinion is common practice instead. Emphasising antagonistic positions¹³, set off against others, is apparently necessary for a sharp profile and a way to mark a sharp dividing line between 'us' and 'them'. In this way, politics automatically becomes a battlefield of unbridgeable differences of opinions that must be fought over.

¹⁰ Hobbes, *Leviathan* [1651], Amsterdam: Boom, 2002.

¹¹ See for example Erik Borgman, 'Leven van de gemeenschap buiten ons bereik' in: *Metamorfozen. Over religie en moderne cultuur*, Kampen: Klement 2006, pp.113-128 and Bernhard P. Dauenhauer, *P. Ricoeur, the Promise and Risk of Politics*, Lanham: Rowman & Littlefield Publishers, 1998. pp 213-223.

¹² Martha Nussbaum, *Political Emotions: Why love matters for Justice*, Harvard: Belknap Press.

¹³ See for example Paul Frissen, *Gevaar verplicht. Over de noodzaak van aristocratische politiek*, Amsterdam: Van Gennep, 2009 who follows Chantal Mouffe's empty antagonistic political view rather uncritically. Carl Schmitt is the most famous and controversial representative of the antagonistic political position that has become popular. See his: *The concept of the Political*. The University of Chicago Press, 2007.

Interestingly, the majority of citizens are fed up with such a cynical power-based view of politics.¹⁴ As a culture in which aversion to other opinions prevails over the insight into the motives of other people. Where it has become normal to Tweet one's own opinion as bold as possible, in order to generate people's attention. A policy of unbearable simplification, where the victory of one is the defeat of the other.¹⁵

People realise that reality is not that simple. There is a need for a moral conception of politics in which ideals about what makes a good life for all are fully incorporated. It centers around good social practices that are realistic and win the hearts and minds of people. Within society, there is a potential for a politics of hopeful initiatives that make bridging antagonistic positions its core task. It is not for nothing that this ideal corresponds exactly to the original vocation of politics. It is about pacifying the blunt struggle for power and bridging the contradictions in society, within the framework of the institutions and the rule of law that guarantee fair relations. The distinctive sign of the civil counter-movement is a firm protest against antagonistic politics.

Three humanization tasks: water, fire and ideals.

As a way out of antagonistic politics, I propose three tasks that emerge from the classical humanist tradition¹⁶. They emerge from the tasks that every human being faces, namely overcoming fear, taming aggression and the incarnation of ideals into reality.

The first humanization task of man is to learn to deal with fear of water. From his origin at the mother's womb, man must overcome the fear of life and insecurity of existence associated with the fact that people can never fully understand the consequences of their actions.¹⁷ Man can respond to this uncer-

¹⁴ See also in: Claartje Brons, *Political discontent in the Netherlands in the first decade of the 21st century*, Tilburg 2014.

¹⁵ Jan Prij, 'Theedrinken als kern van het politiek' in: *'Filosofie & Praktijk'*, summer 2011, pp.19-32.

¹⁶ See for the religious background of these covenant histories: Jan Prij: *God en Geld*, Utrecht: Klement, 2018.

¹⁷ See Hannah Arendt, *The Human Condition*, Chicago: The University of Chicago Press 1958, pp. 236-247. Not only the ability to make promises is crucial to the civil ideal of society, but also

tainty by making promises. It could respond to the various concerns of citizens, the fear of going under in the tidal waves of existence, with innovative perspectives, with promising measures that focus on job security as a counterweight to the constant flexibilisation of labour.¹⁸

The second task is to learn how to deal with fire. It is in fact the basis of all civilization, as not only religious writings, but also modern sociologists teach us.¹⁹ Politically, this vocation, this responsibility of mankind translates into the task of pacifying various conflicting interests. If this is not done, or is done insufficiently, as is currently the case in many countries under pressure from radical left-wing or right-wing politics, then violent conflicts are likely to arise. This is the case, for example, in the difficult discussion in the Netherlands about the future of pensions, where the discussion is being held hostage by radicalised trade unions. We also see it in extremely difficult and often derailed discussions about our cultural identity (in the Netherlands, for example, about the phenomenon of 'Zwarte Piet', where the various positions are diametrically opposed to each other).

The third task is to connect air and earth, heavenly ideals with earthly reality. In the religious tradition it is a calling to reflect the face of God (*Imagio Dei*) or the imitation of Christ (*Imitatio Christi*) in various social practices on earth. In a political sense, its meaning lies in the contemporary adage 'Practice what you preach'. Doing what you have promised, that is the power of morality, in the economic and political reality of everyday life.

Enough opportunities and a sense of justice

The humanisation tasks are basic tasks that the ordinary citizen only too well understands and feels. It is the moral side of the concept of *middle class*. We be-

the ability to forgive. Giving someone a new chance is essential because otherwise people will be locked into things they have done and won't be able to bear the burden of the consequences of their actions.

¹⁸ For the Netherlands, see Arjen Siegmans: *De baan als basis: een nieuwe aanpak om langdurige werkloosheid te voorkomen*. Den Haag, Wetenschappelijk Instituut voor het CDA; Regarding the social psychological consequences of this uncertainty, see Richard Sennett. *The Corrosion of Character: The Personal Consequences of Work in the New Capitalism*, 1998.

¹⁹ See for the Netherlands. Joop Goudsblom, *Vuur en beschaving*, Amsterdam: Van Oorschot, 2015.

Civil power and the vocation of politics

come true to ourselves by overcoming fear, taming violence and giving hands and feet to ideals. It is the task of the political order to create space for these civilisation tasks. By shaping the institutions at the macro level in such a way that they provide citizens with a 'sense of justice' and enough opportunities for everyone. Ordinary people, exemplified by the middle class, understand only too well that they do not owe their existence to themselves. They want to give back to society what they have received from others. It is up to politicians to acknowledge this untapped potential of the middle class to make society flourish.

The Middle



For the first time in history, more than half of the world's population belongs to the middle class. Global poverty has declined rapidly due to globalisation and technological development. But the same trends also lead to rapid change and the feeling that society is moving away from its moral core.



The term middle class refers to the centre of a society that is more than the sum of individuals. This core is made up of citizens, families, businesses and associations where people look after each other, care for each other and do not only look after their own interests. The middle class is also the driving force behind economic development and growth, based on trust and a hopeful perspective for the future.

In this book, the middle class in the Netherlands and Europe is highlighted by several authors and from different points of view. How is the middle class doing? What problems do families experience? What power lies in the *civil society*? And what does this mean for politics?

