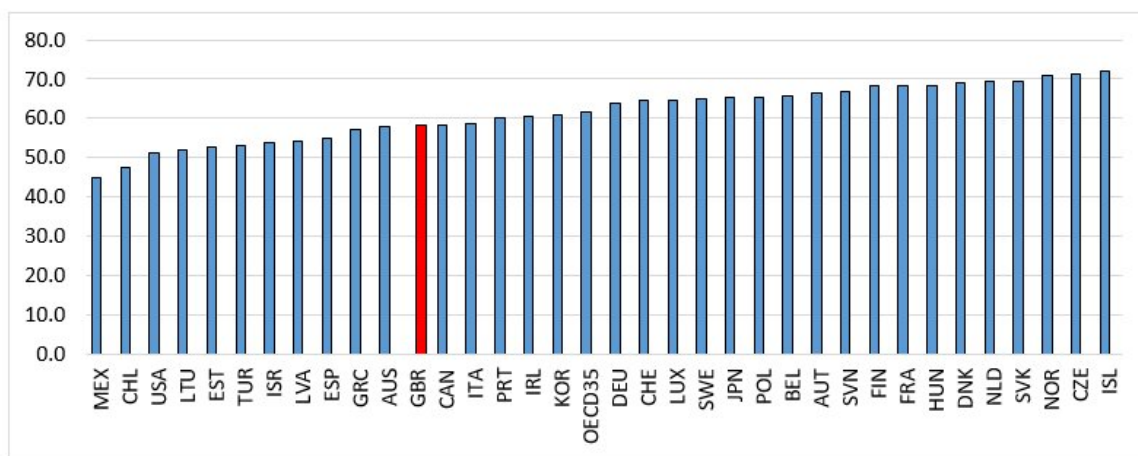


Whither the middle class?

July 2 2019, by Peter Whiteford

Chart 1: The share of middle-income households in OECD countries, 2016



Note: Middle-income households are defined as those with equivalized disposable incomes (after direct taxes and social security benefits of between 75 per cent and 200 per cent of the population median). Credit: OECD, Under Pressure: The Squeezed Middle Class, 2019, Paris.

A new OECD report, "[Under Pressure: The Squeezed Middle Class](#)," analyses how the middle class has fared in high-income countries between the 1980s and 2016. The results for the UK have some striking features.

The OECD defines the [middle class](#) as households with [disposable income](#) of between 75% and 200% of the median (or mid-point of the

[income](#) distribution, adjusted for the number of people who live in a household). In [the UK](#) in 2016 that would have translated into after-tax income of between £13,500 and £36,100 for a single person, and £27,000 and £72,200 for a couple with two children, and more for larger families. That's quite a low threshold for the middle class: a single person would only have to earn a little more than the minimum wage to sneak in—but they would have to be working [full-time](#) for the whole year to achieve this.

What do the OECD's calculations reveal? On average across its 37 member countries, the proportion of people in middle-income households fell from 64% to 61% between the mid-1980s and the mid-2010s. The economic influence of the middle class and its role as a "centre of economic gravity" also weakened. Overall, median incomes have increased a third less than the average income of the richest 10%. And the cost of essential elements of the middle-class lifestyle—especially housing—have increased faster than inflation.

The study finds that the UK's middle class comprises 59% of the population, which is slightly smaller than the OECD average of 61%. The reason is simple: while the UK has a lower share of people in relative poverty (less than 50% of the median) than the OECD average (9.4% compared to 11.4% for the OECD), it has more people between 50% and 75% of the median (21.0% compared to 18.1%) and a higher proportion earning more than twice the median (11% of households compared to just over 4%, for example, in Denmark).

Recent evidence from [Brewer and Samano Robles](#) of the Institute for Social and Economic Research at the University of Essex also shows a clear upward trend in top income shares, so that by 2015/16, the share of income going to the top 0.1% was the second highest it had ever been. As they note, this suggests we should modify the story about recent inequality trends to one which recognises that, while gaps across most of

the distribution might be shrinking, the very rich in the UK are continuing to pull away.

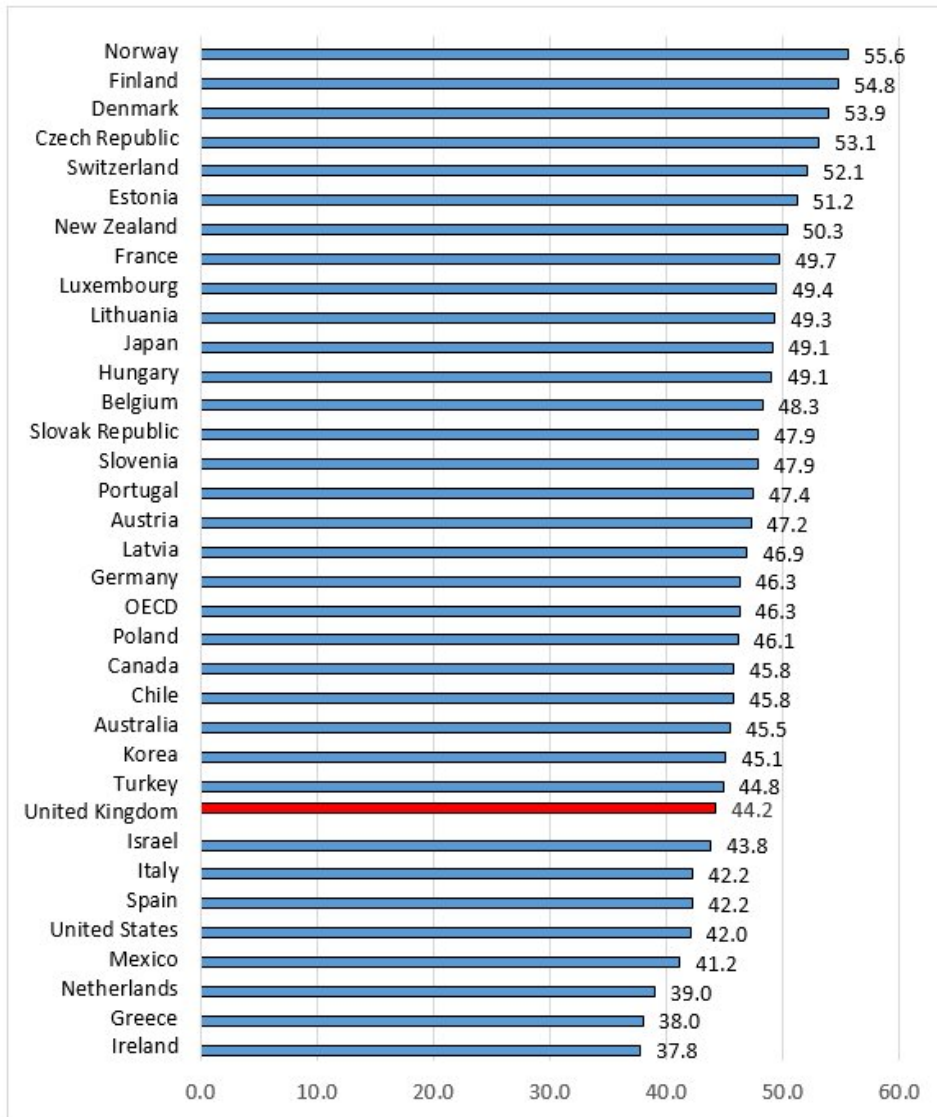
The UK also appears to have the most volatile incomes of all the OECD countries for which data were available. On average between 2007 and 2015 about two-thirds of those with incomes less than 75% of the median saw their disposable income rise or fall by 20% or more between years and nearly half of those between 75% and twice the median experienced similar income changes. This contrasted to about one-third for OECD countries on average and less than one quarter in the Nordic countries, the Netherlands and the Czech Republic.

In addition, middle-income households appear to be more likely to fall into poverty in the UK than in many other countries. Their probability of falling into poverty from one year to the next was around 3.8% in the UK over the period 2007–15, or nearly twice the OECD average and four times the figure for countries like Denmark and the Netherlands.

Defining the middle class solely according to income obviously differs from sociological approaches based on the types of job held by members of a household. For example, in [John Goldthorpe's](#) analysis, the contrast between middle class and working class is clear,

"A wage-worker in Class 6 or 7 [the working classes] has a relatively high risk of job loss and especially of recurrent or long-term unemployment, has weekly earnings that often vary widely with piece rates, shiftwork premia, the availability of overtime, etc, and, most importantly, has little prospect of real earnings progression after around age 30–35. This person is living in a significantly different economic world from a salaried employee in Class 1 or 2 who has a relatively high degree of job security, a known amount of pay going into the bank each month, and the realistic expectation of salary increases, via incremental scales or promotion, up to age 50 or beyond."

Chart 2: Share of population of working age in full-time jobs earning more than two-thirds of median income, 2015



Calculated from OECD employment database and wages database.

In fact, people in the UK appear to define class more in this way. The OECD report also reports on people's perceptions of their status. Only

42% of UK respondents identify themselves as middle-class, or about two-thirds of those classified as middle-income. Apparently, people in Britain are more likely to define themselves as working-class than in any other European country apart from Portugal. About 60% of Australians and Canadians identify as middle-class, while 80% or more of people living in the Nordic countries and the Netherlands see themselves as middle-class.

Thus, another way of looking at the middle class is from the perspective of labour-market and pay status. While the UK's overall employment rate is high by OECD standards, the share of part-time workers is the fourth-highest in the OECD. In 2015, the proportion of British employees who are both full-time and well paid (male and female) was 44.2%, below the OECD average and higher than only eight of 34 countries.

The countries with the highest shares of full-time, well-paid jobs are largely the same as those with the highest share of middle-class households—mainly the Nordic countries. Indeed, the OECD report specifically notes that part-time workers are seldom the heads of middle-income households. Among 17 OECD countries with available data, only eight percent of middle-income working households are headed by part-time workers.

To be fair, Britain has performed better than average between 2008 and 2015, with the proportion of the working-age population in full-time, well-paid jobs increasing by about 0.5 percentage points. It is also likely to have done better since 2015, with employment continuing to rise and the impact of the increases in the minimum wage. The worst-performing countries are in Southern Europe and Ireland, but the Nordic countries have also performed badly (though from a higher base).

Is the shrinking middle-class a political or policy concern? Zoë Irving in

[a recent discussion of the OECD report and its wider implications](#) notes that "A weakening of economic power is always accompanied by a weakening of political voice, and in this case, a voice that has demanded well-funded, comprehensive welfare provision."

She argues that "Saying farewell to the middle class is far more dangerous than simply identifying it as a further symptom of the greater polarisation between rich and poor; it's the burning of a strategically significant bridge that offers a route back to the fundamental solidarities (not just the efficiencies) that underpin the welfare state."

What can be done to strengthen the middle class in the UK? The OECD report identifies policies its authors believe will foster a prosperous middle class. They recommend, among other things, that governments improve access to high-quality public services; ensure better social protection coverage; encourage the supply of affordable housing; and invest in vocational education and training.

Its authors also want governments to design labour-market institutions that ensure productivity gains are shared widely and translate into higher wages and better working conditions, particularly for low and medium earners. And they want the tax burden to be shifted from labour income to income from capital and capital gains, property and inheritance, as well as income taxes made more progressive and fairer.

This is a very different agenda for "Middle England" than the tax cuts and smaller state policies we have been hearing much of recently in UK policy debates.

More information: Under Pressure: The Squeezed Middle Class (2019). [DOI: 10.1787/689afed1-en](https://doi.org/10.1787/689afed1-en). [www.oecd-ilibrary.org/social-i... le-class_689afed1-en](http://www.oecd-ilibrary.org/social-issues-innovation-policy/le-class_689afed1-en)

Provided by University of Bath

Citation: Whither the middle class? (2019, July 2) retrieved 26 April 2024 from <https://phys.org/news/2019-07-middle-class.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.