

## Middle classes in Europe

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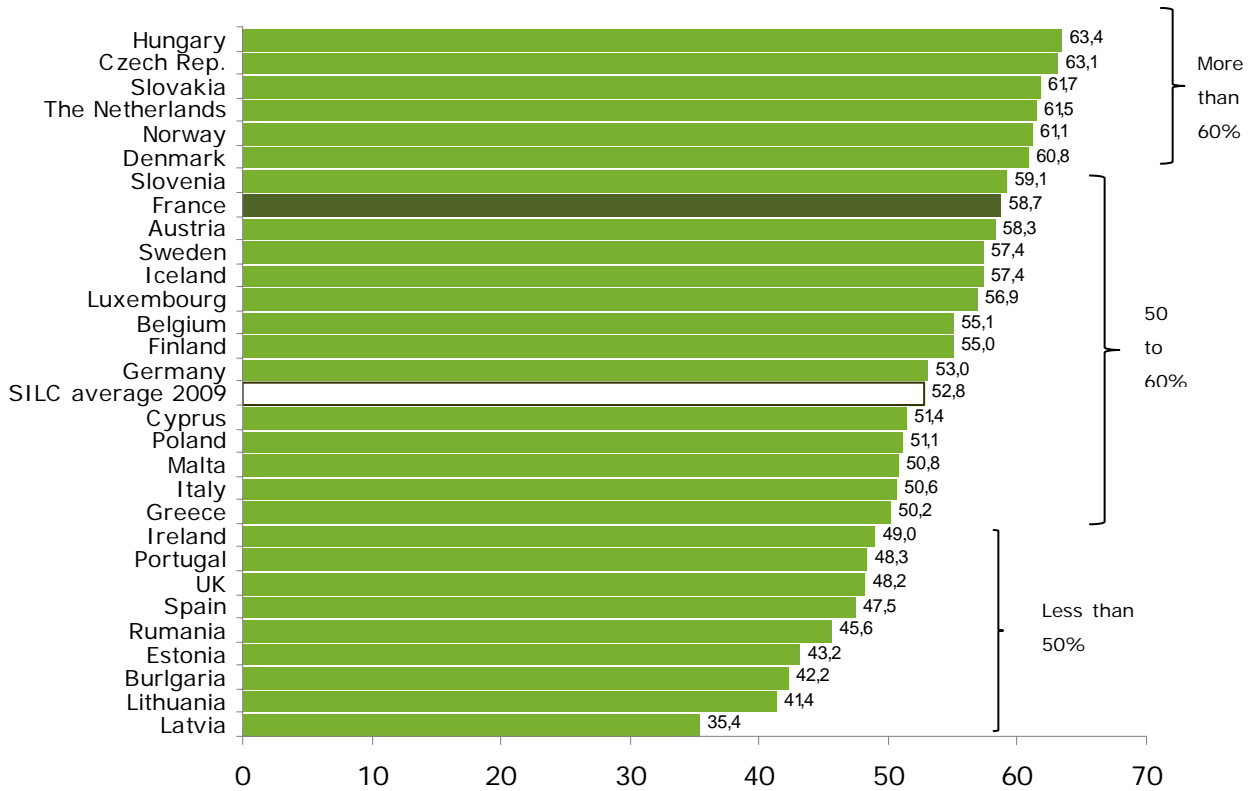
*Middle classes are often the subject of public debates. They would be in decline, pauperized, "milked" by taxes and neglected by the Welfare-state, about to break up, thus threatening the whole social cohesion. When analyzing the Europeans' incomes over a long period, we can see that most of these ideas are wrong although, in one European country out of two, middle classes are less numerous today than they used to be thirty years ago. But it is hard to generalize. Actually, In France, in The Netherlands, in Norway, in The United Kingdom, in Spain and in Italy, middle classes tend to be as large as they were or even increase. There is not any European country where middle classes are getting poorer although they are often left behind by upper classes. Our study also shows that middle classes are more represented in countries where the state plays an important part in the economy and where social and tax redistribution is strong.*

#### **In France, middle classes are quite large**

The extinction of middle classes is not about to happen. Depending on the countries, they account for 35 to 63% of the whole population. The average rate among the 30 European countries is 53%. France is one of the countries where middle classes are the most important, they represent 59% of the whole population, almost as much as in Denmark (61%), Norway (61%) or in The Netherlands (62%), and much more than in Spain (48%), Portugal (48%), Greece (50%), Italy (51%), Great Britain (48%) or Ireland (49%).

## Share of middle classes among the population in Europe in 2009

Share of households whose living standards are bet. 70 and 150% of the median



Source: calculations based on the 2009 SILC Eurostat data

## How to define middle classes ? A hard work

For now more than two centuries, economists, sociologists and historians have been thinking about this subject and its challenges. A very long time ago, Aristotle already showed an interest for this matter. One of the major difficulties when speaking of this subject is to try to define it. Actually, more than 150 various definitions have already been listed.

To be honest, we must admit that the various studies never speak of the very same population category depending on the problem they cover. Moreover, words have very different meanings, even inside the same country. In France, we speak of "*classes moyennes*" (plural or singular), of "*couches moyennes*" (middle sectors) and even sometimes of "*professions intermédiaires*" (intermediate professions). The British "*middle classes*" have very few in common neither with the German "*Mittelstand*" (middle state) nor with the Italian "*ceti medi*". In Belgium and Luxembourg, the Middle Class Minister is actually in charge of artisans, storekeepers and professionals.

Some studies consider middle classes as a social status, a working category, some specific professions, a cultural patrimony while others see them as defined by the economic capital they own (incomes and patrimony). The political use of "middle classes" tends to make the notion even more undefined, as a vast majority of the population says they belong to this category, it's a rather easy notion to manipulate. Speaking to middle classes means speaking to everyone.

In this research, the definition of middle classes is based on the level of incomes. People who live in a household whose disposable income per consumption unit is between 70 and 150% of the general population median are considered as middle class members. A consumption unit is defined as the square root of the number of persons living in the household. Thanks to these calculations, the population can be sorted into 4 categories :

- the low incomes: living standards lower than 70% of the median
- the lower middle classes: between 70 and 100% of the median
- the upper middle classes: between 100 and 150% of the median
- the high incomes: higher than 150% of the median

In France, the living standard median is 1750 euro per consumption unit (in 2009). It means that one person out of two lives with less than 1750 euro per month. Consequently, according to our typology, a person who has a disposable income between 1220 and 2620 euro per month is a member of the middle classes. For a couple with two children, these calculations reach the amount of bet. 2440 and 5240 euro per month.

## **In several European countries, middle classes are in decline....except in France**

The decline of middle classes is a recurring question. In the background of this interrogation, the polarization of incomes is worrying with its consequences on an "hourglass shaped society". It is a common feature to most sociological or economical works on middle classes: in many countries and at different times, middle classes are seen as the cement of social cohesion. According to Aristotle, the well being of a nation can be measured with respect to its middle classes.

And yet, these middle classes have actually been in decline in many European countries for about twenty years. Before going into details, let's remember that it is not easy to detect an obvious trend as data are not always available over a long period of time in every country. When data can be gathered, it can be seen that middle classes decrease then increase or increase then decrease, or even remain stable. The trend does depend on when the study starts and ends. But whatever the way you calculate, the number of countries where middle classes decrease is more important than the number of countries where they increase. Moreover, the countries where middle classes significantly increase are very few.

Middle classes have particularly decreased in Eastern Europe countries (Slovakia, Czech Republic, Poland) and in Northern Europe countries (Finland, Sweden, Germany and Belgium), where they were historically large. In France, middle classes are slightly more numerous than they used to be 20 years ago, but what is more noticeable in this country, it is how stable the country has been both from a short term and an underlying points of view over the last 30 years.

### **In many countries, middle classes are in decline**

	Share of middle classes in the whole population (in %)		Evolution for the last 20 years (in %)
	late 80s-early 90s	2009	
Slovakia	73,2	61,7	-11,5
Belgium	64,0	55,1	-8,9
Finland	63,9	55,0	-8,8
Czech Republic	70,3	63,1	-7,2
Germany	59,8	53,0	-6,8
Sweden	63,6	57,4	-6,2
Poland	55,4	51,1	-4,3
Luxembourg	60,6	56,9	-3,7
Spain	49,8	47,5	-2,3
Austria	59,6	58,3	-1,3
Italy	50,4	50,6	+0,2
Norway	60,6	61,1	+0,5
The Netherlands	60,6	61,5	+1,0
Denmark	57,9	60,8	+2,9
France	55,5	58,7	+3,2
The United Kingdom	44,6	48,2	+3,6
Ireland	43,1	49,0	+5,9
Hungary	55,1	63,4	+8,3

Source: calculations based on LIS (late 80s and early 90s) and SILC data (2009)

## **No pauperization of the middle classes in France**

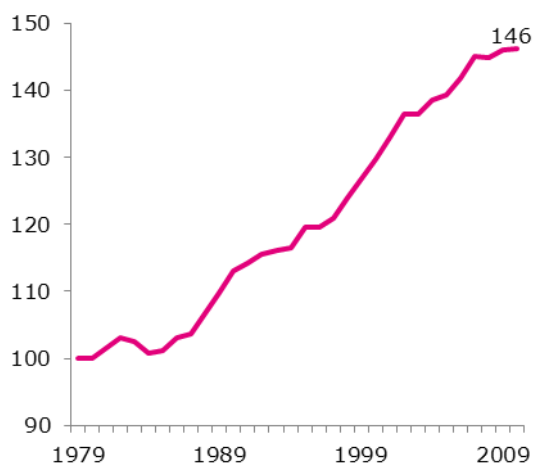
In France in 2009, one person out of two says "his/her living conditions have worsened for the last ten years". For more than thirty years, French citizens have never been as pessimistic as they have been for the last three years. The financial and economic crisis has deeply tantalized Europe, destroying millions of jobs and harshly stopping the salary increase. The situation has been even worse if we consider that for the last ten years the purchasing power has been increasingly attacked: while the purchasing power has increased only by 0.7% per year on average in the last ten years, "unavoidable expenditure" -in particular housing expenditure- have constantly increased.

However, in spite of the crisis, the average income has kept on increasing. Even more surprisingly, between 1979 and 2009, the purchasing power of the available gross income per household increased by 46%. In 2009, the average living standard of the middle classes reaches 1.806 euro per month for one person, while it was only 1.287 euro in 1979, at constant prices. So, it is not possible to speak of pauperization.

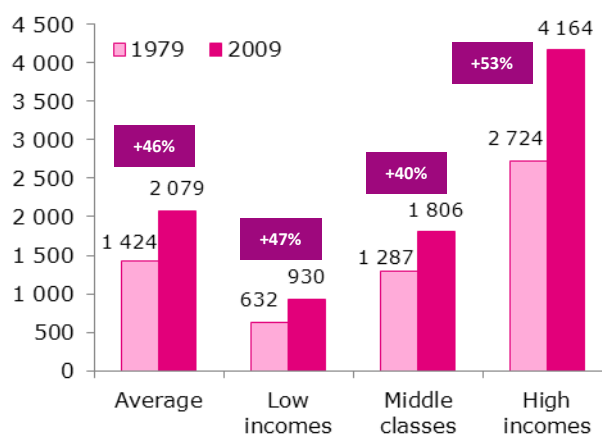
Two elements can explain the current uneasy feeling of middle classes. Firstly, the "unavoidable expenditure" represent an increasing share of their incomes, nowadays, they account for 35% of the budget vs. only 20% thirty years ago. There is less to spend for other expenditure (food, leisure, transport, household equipment, etc.). Then, it is clear that the living standard of the middle classes has increased less in the last thirty years than the other social categories'. Indeed, the average living standard of high incomes has increased from 2.724 euro to 4.164 euro, which represents an increase by 53% vs. a 40% increase for the middle classes and a 47% growth for the low incomes. For now more than thirty years, middle classes have been outrun by high incomes and caught up by low incomes.

## In France, the middle classes' standard of living has increased for the last 30 years

Available income per household (index 100 in 1979)



Average living standard for each category (in euro per month)



Source: Calculations based on LIS (1979), SILC (2009) and INSEE (French national accounting) data

## Increase of incomes for middle classes in all Europe

Although the number of middle class members has decreased in many European countries, no decrease in their living standard can be observed. The annual income increase rate per capita has been growing over a long period of time in every country and in every population category (low incomes, middle classes and high incomes) In some fast growing countries, such as in Eastern Europe, the rise in living standards of middle classes has been very remarkable: +8.7% in Estonia, +4.5% in Poland, +3.3% in Slovenia. In some other countries, such as Switzerland, France, Denmark, Sweden, Italy or Belgium, this rise has been almost unnoticeable.

In a vast majority of countries, middle classes are often seen as outrun by high incomes. Middle classes or low incomes are very seldom the major beneficiary of the economic growth: it happens to be the case in Italy, Spain, Germany, Denmark or Estonia but in most countries, middle classes strive to have the same level of growth as high incomes. It is hard for the low incomes to benefit from this growth as well, thus, income inequalities tend to increase in Europe. A recent OECD study reaches the same conclusions when surveying even more countries.

### No pauperization of the European middle classes over a long period of time

	Reference period	Living standards: Average annual increase rate			
		...for low incomes	...for middle classes	...for high incomes	...for the whole population
France	1979-2009	1,3	1,1	1,4	1,3
Finland	1987-2009	2,1	2,1	2,7	2,4
Czech Republic	1992-2009	2,3	2,7	3,2	3,0
Luxembourg	1985-2009	3,3	3,6	4,1	3,8
Sweden	1975-2009	1,5	1,6	1,9	1,8
Norway	1979-2009	2,5	2,7	2,9	2,8
Belgium	1985-2009	1,5	1,8	2,1	1,9
Poland	1992-2009	4,1	4,5	4,9	4,6
Slovakia	1992-2009	1,2	1,8	2,3	2,2
Austria	1987-2009	1,8	1,8	2,3	2,1
The Netherlands	1983-2009	1,8	2,4	2,6	2,2
Italy	1986-2009	1,1	1,5	1,5	1,4
The United Kingdom	1974-2009	1,6	1,7	2,0	2,0
Germany	1973-2009	1,8	2,0	2,0	2,0
Denmark	1987-2009	0,2	1,4	1,4	1,4
Spain	1980-2009	2,0	2,4	2,1	2,2
Estonia	2000-2009	8,1	8,7	7,1	7,4
Hungary	1994-2009	3,5	3,2	1,8	2,4
Ireland	1987-2009	4,9	4,8	4,5	4,6
Switzerland	1982-2004	1,3	1,1	0,2	0,8
Greece	1995-2009	3,3	3,0	3,1	3,0
Slovenia	1997-2009	3,4	3,3	3,2	3,4

Source: calculations based on LIS, SILC, INSEE (French national accounting) and OECD data

### Middle classes are larger in rich countries

How can we explain that middle classes are larger in some countries than in some others? First, we can see that there is a certain link with the general living standard of the country. Norway, Sweden, Finland, Denmark, The Netherlands, Switzerland, Austria, Belgium and France are richer countries than the average and middle classes are larger than anywhere else. In Estonia, Latvia,

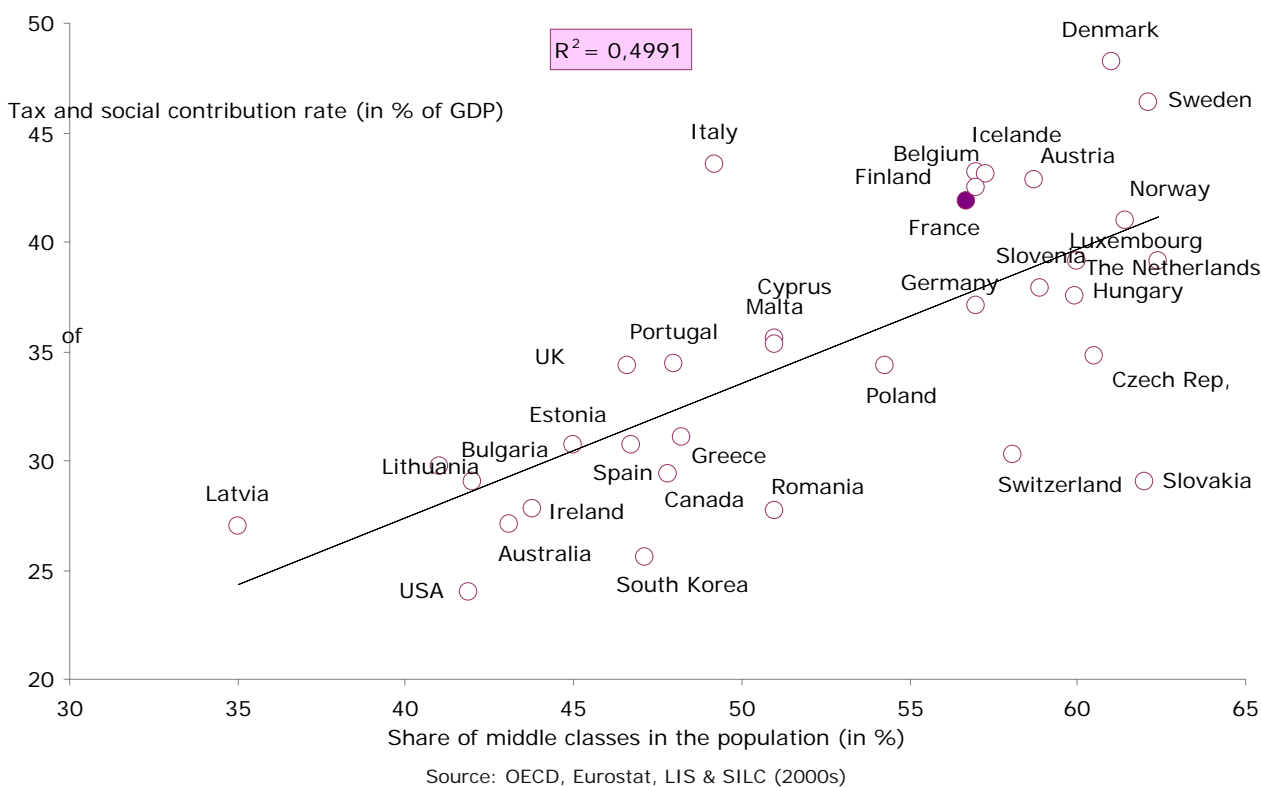
Lithuania, Bulgaria and Romania, middle classes are rare, the average GNP per capita is lower than the European average (the situation is the same outside Europe, in Russia or Brazil). However, the link between a high GNP and large middle classes ( $R^2=19\%$ ) is not optimum: The United Kingdom, Ireland, Italy and Spain are rich countries as well but middle classes are not as significant as in other rich countries (outside Europe, the same situation can be observed in The United States, Canada and Australia).

### **The Welfare-state and middle classes**

So, other parameters have to be taken into account. The above mentioned English speaking countries share, more or less, the same conception of a very limited state intervention in the economy. The Welfare-state is less common than anywhere else. Indeed, the rate of tax and social security contributions is definitely linked to the importance of middle classes in each country ( $R^2=50\%$ ). The gap between Northern Europe countries and English speaking countries is obvious. These outcomes are not very surprising: although the matter is often discussed, the social and tax system is rather redistributive, direct taxes are progressive, high incomes pay more taxes than middle classes and low incomes, which are both the major beneficiaries of social benefits (social benefits for low incomes, housing benefits, unemployment compensations, means-tested family benefits...). The income distribution, after applying this redistribution scheme, is logically closer to the median income than it is before the tax and social contributions system is applied. Claiming that middle classes are "milked" by taxes and forgotten by the Welfare-state means concealing the fact that a big part of the low income populations can become members of middle classes thanks to social benefits and that the progressive tax system limits the living standard variations between middle classes and high incomes.



## Middle classes are larger in countries where tax and social contributions are high



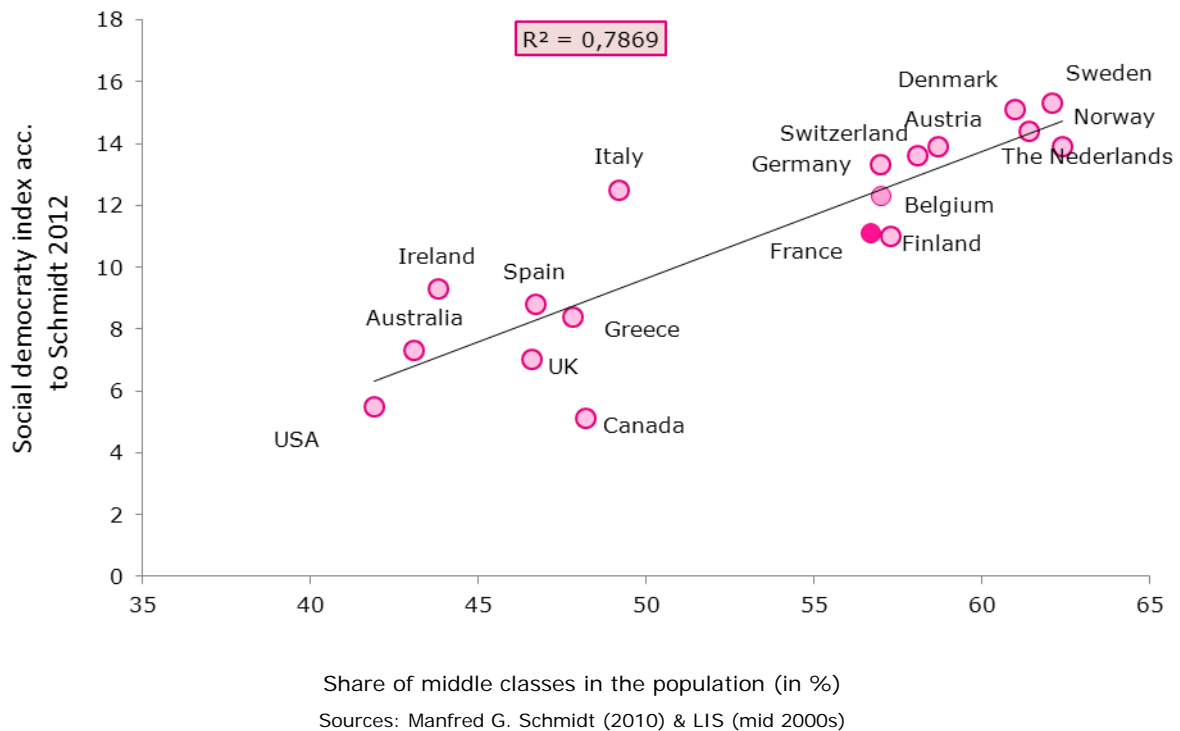
The correlation between the share of middle classes in the society and the amount of public social spending is very strong ( $R^2=57\%$ ). Another correlation can also be found between the labor legislation and the important share of middle classes. The OECD has defined a "Social protection index" which assesses the level of protection salaried employees have when they are confronted with individual dismissal (particularly in case of sick leave), psychological harassment, etc. The higher this index is, the larger middle classes are ( $R^2= 22\%$ ).

## The influence of democracy

Apart from the Welfare-state, democracy also plays an important part in the building of middle classes. In political sciences, the concept of "liberal democracy" (which is a feature of most developed countries) is often declined in terms like "libertarian democracy" or "social democracy". Manfred G. Schmidt, a German political scientist, has defined an indicator meant to classify the various political regimes depending on their "social" or "libertarian" orientation based on nine criteria, including the levels of institutionalization and of legalization of social and economic rights,

the importance of tax and social contributions, the level of market control, the level of workers' participation to the decisions made in the companies, the poverty rate, social diversity in the education system, the share of active population, the gaps between incomes, etc. When crosschecking Schmidt's indicator with the size of middle classes in each country, the correlation rate between these two indicators is very high ( $R^2 = 78\%$ ).

### Middle classes are larger in "social democracies" than in "libertarian democracies"



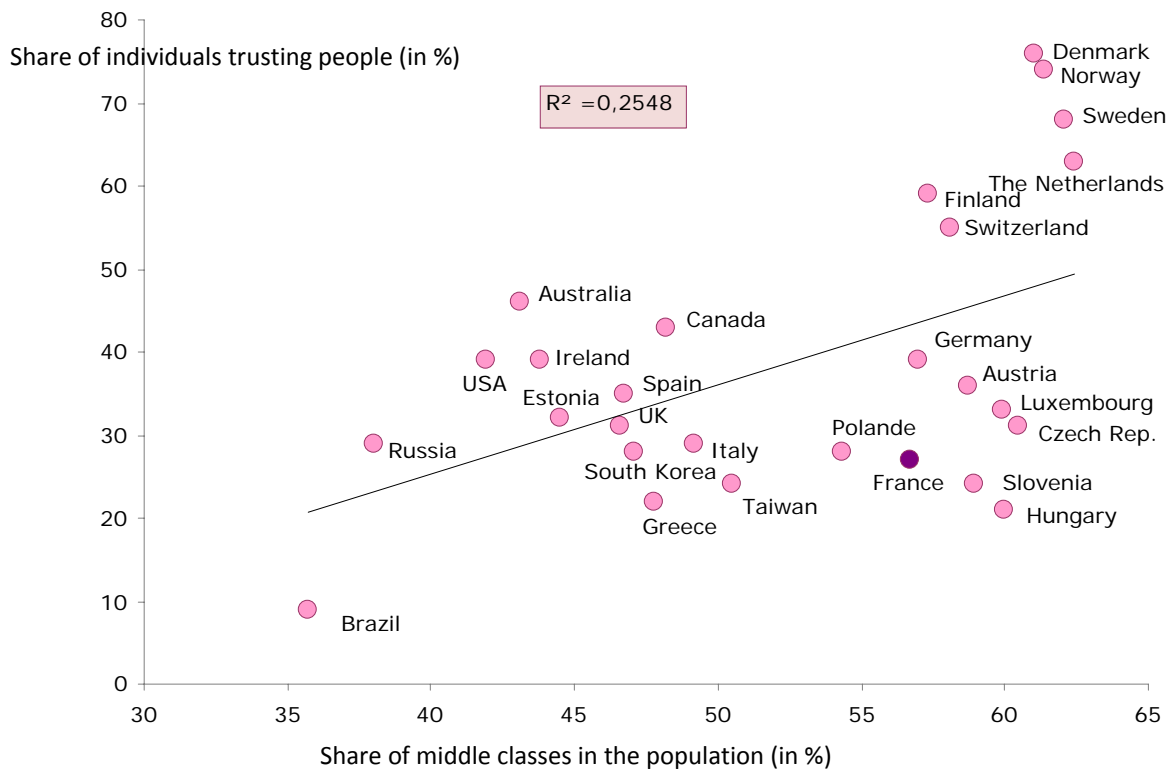
Even the very nature of institutions, the constitution or the balance between the various powers seem to interfere with the number of middle class members. Arend Lijphart has defined several classifications which allow us to make a difference between "consensual" and "majority" democracies. The consensual democracies are characterized by a distribution of the executive power among a coalition of political parties (vs. only one party ruling the country), a symmetry between both powers, legislative and executive (vs. a stronger executive power), a multiparty system (vs. a dual party system), a proportional voting system (vs. a majority voting system), a federal organization (vs. a centralized state), a constitution hard to modify (vs. an easily adaptable constitution), an autonomous central bank (vs. a central bank under the authority of the executive power), etc. It seems that middle classes are larger in consensual democracies. France is an exception to this rule as the country looks more like a majority democracy, however its middle classes are numerous.

## Middle classes: the foundation of social cohesion

We have just seen that middle classes thrive better in "social" democracies than in the "libertarian" ones and in "consensual" political regimes than in the "majority" ones. In the opposite direction, we could also wonder if the importance of middle classes in each country is not one of the necessary elements to strengthen these democratic regimes. A society where individuals share the same way of life is a better ground for dialogue and general agreement.

Actually, the level of trust or distrust in each society is fairly linked to the importance of middle classes in the whole population ( $R^2=25\%$ ). In Denmark, Norway, Sweden, The Netherlands, Finland or Switzerland -where middle classes are large- a vast majority of citizens think that, generally, "people can be trusted". On the contrary, in The United States, Russia, Brazil, Estonia and Greece, a majority of citizens think "one is never too careful when one has to deal with someone else". These countries have small middle classes. The correlation is not always adequate, as distrust is a strong feeling in France, Luxembourg, Austria, Germany, Czech Republic, Slovenia and Hungary, where middle classes account for a major part of the population. However, we can easily figure out that a fairer income distribution tends to "pacify" social ties while a bipolar society inevitably creates tensions.

### Middle classes and trust in people



Source: European Value Survey (2008) & LIS (mid 2000s)

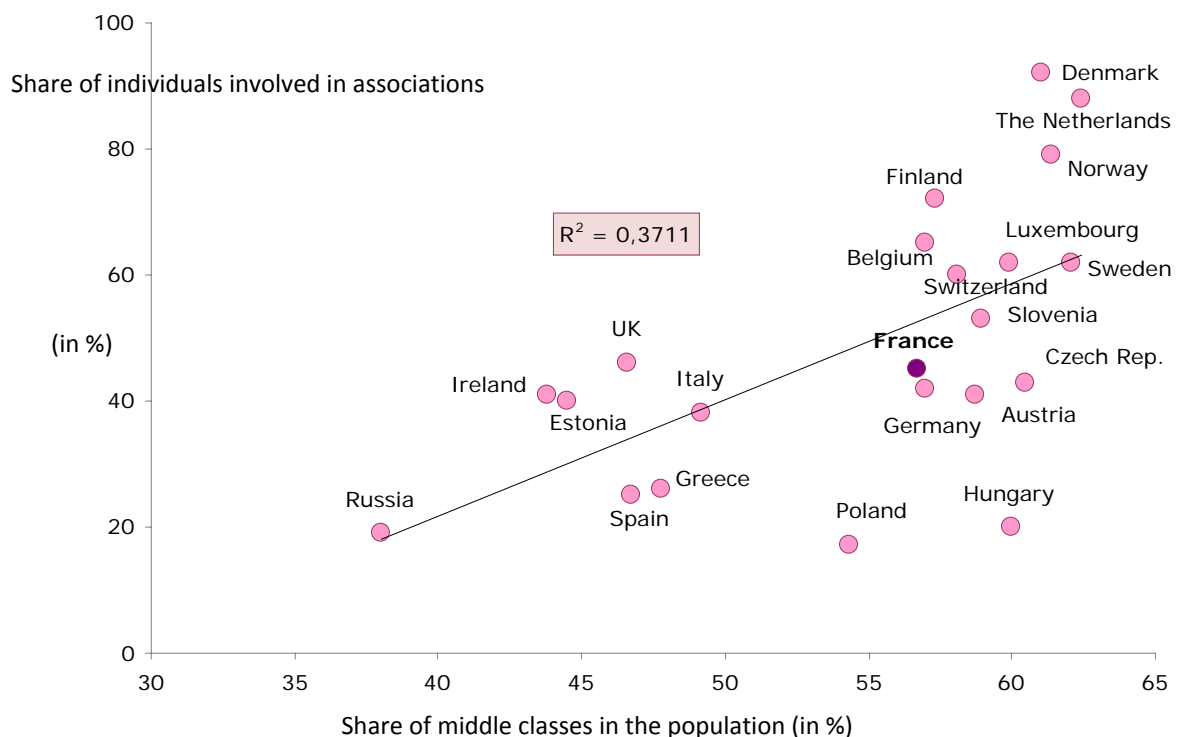
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Besides, in countries where middle classes are larger, the involvement in associations is common ( $R^2=37\%$ ). A big gap can be seen between Eastern and Southern Europe countries, where the association network is not very strong, and Western and Northern Europe countries where this network is more active. For some sociologists, the community family structures hamper the development of the civil society in the Eastern and Southern Europe countries. When analyzing the social stratification, we can see that there is more involvement in the community when incomes are better shared.

There is less correlation between the number of middle classes in the population and the active participation to a workers union ( $R^2=17\%$ ) or to a political party ( $R^2=15\%$ ). Similarly, the trust in political parties doesn't seem to be linked to the number of middle classes ( $R^2=10\%$ ). The proportion of voters saying they are ready to vote at the next election ( $R^2=1\%$ ) is not higher in countries where incomes are more fairly shared. In the countries where middle classes are large, it is not more commonly thought that "democracy is important" ( $R^2=15\%$ ), that "democracy works well" ( $R^2=8\%$ ) or that "we are satisfied with our own living standard" ( $R^2=7\%$ ).

Middle classes are not the be-all and end-all of social cohesion. Other parameters have obviously to be taken into account in the "living together" quality index. Nevertheless, these exploratory analyses show that middle classes are an anchor of stability, they are the buffer between the richest and the poorest, their size, more or less important, is an indicator of the political will to share the economic resources of the country and to allow a greater consultation.

### Involvement in associations is higher in countries where middle classes are larger



Sources: European Value Survey (2008) & LIS (mid 2000s)