

Structures Protecting the Middle Class as Key Determinants of Economic Performance

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Introduction

- ✓ For over five decades, the middle class has been, or at least has been assumed to be, the driving economic engine of advanced economies (Pressman, 2007; Furman, 2015)
- ✓ All of a sudden it seems to be losing this critical role in the economy. Does it only seem to be the case or is it really the case?
- ✓ Will future economies have to rely on the growing concentration of wealth in the hands of so few (Pikety and Saez, 2003, Piketty, 2013,2014)?
- ✓ Can 'trickle down economics' guarantee the prosperity and well-being of the rest of society by the rich`s generous investment and philanthropy?

Motivation

- ✓ we must depend on a better understanding of the middle class so that we can better assess how it will react, as a social entity, to the structural changes that are brought upon us.
- ✓ Our argument is that the current state of the art does not endow us with the necessary academic and intellectual tools to adequately study these issues
- ✓ Therefore, we try to develop a novel neo-institutional theory of the middle class that can explain who really belongs in the middle class, why is the middle class a whole lot more than just the middle and the exact nature of its unique role in modern economies.

The problem

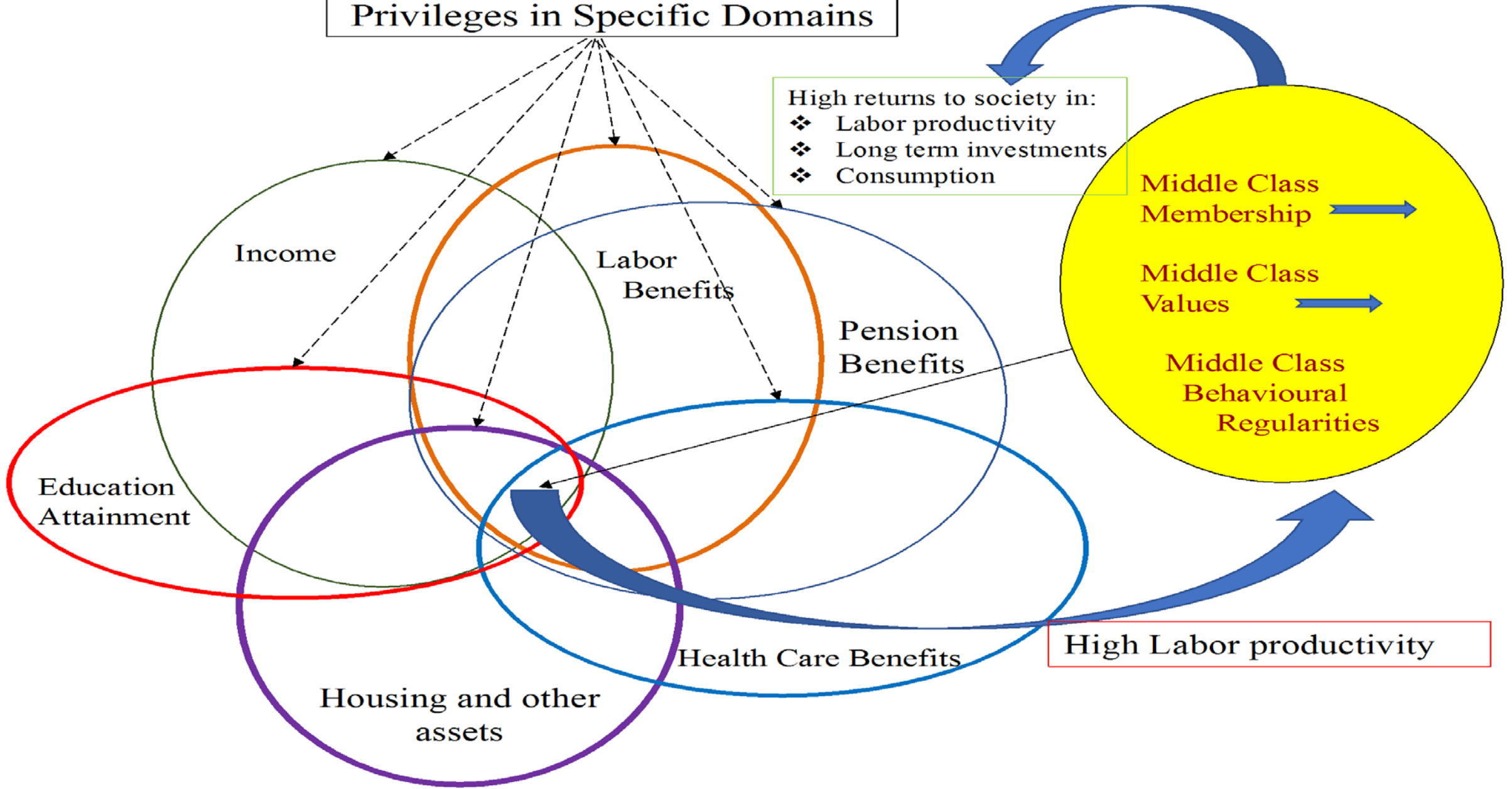
- ✓ improvement in the economic outcomes, since the great recession while data regarding the well being of society remains poor.
- ✓ The “vulnerable class”
- ✓ In many countries subjective data show a deterioration in the well-being of society
- ✓ Productivity growth in many countries is still low
- ✓ Many countries implemented structural reforms: labor market and welfare: UK, Italy, Spain etc

What is really happening?



Institutional Structures Protect Privileges in Specific Domains

- High returns to society in:
- ❖ Labor productivity
 - ❖ Long term investments
 - ❖ Consumption

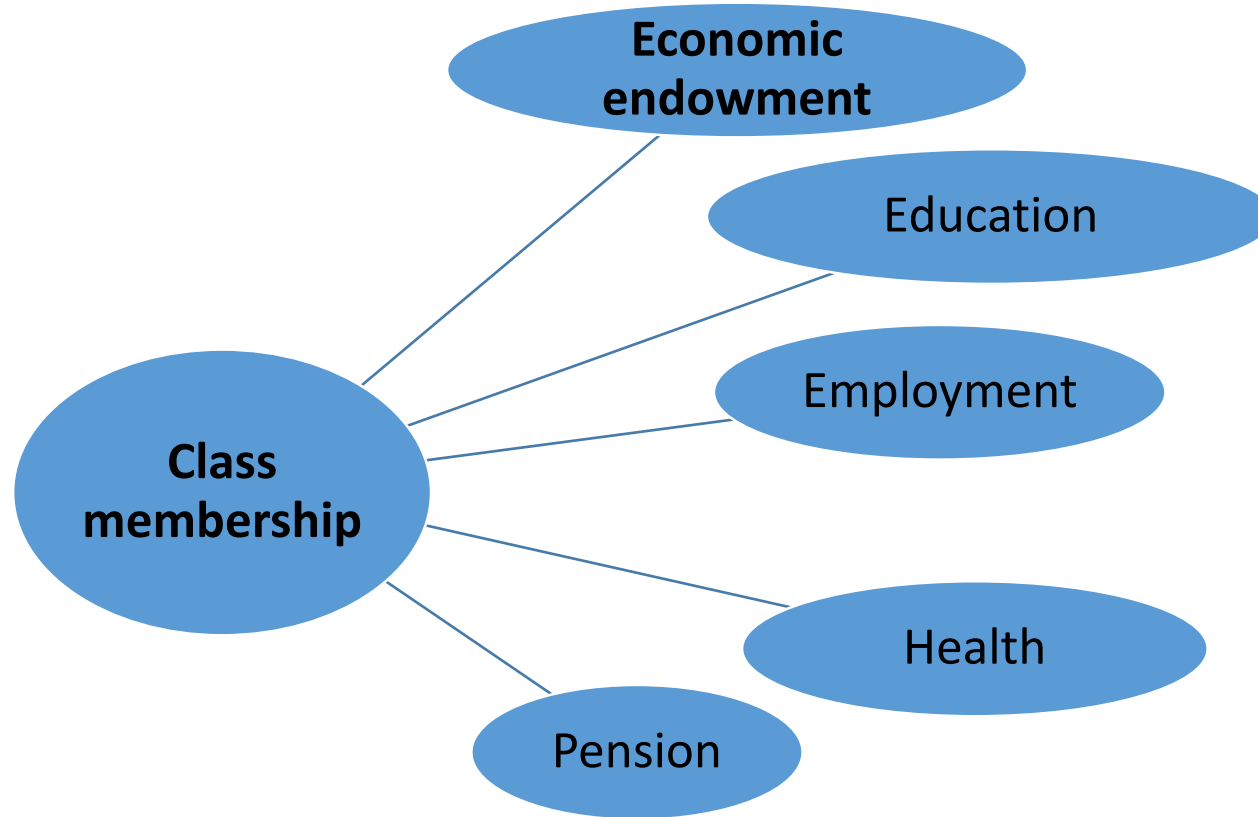


High Labor productivity

- ✓ The poor enter the game with no *endowment*. They sell their labour to survive. They cannot borrow money, accumulate capital or assets. They aspire to satisfy their pressing needs.
- ✓ The middle class enters the game with modest assets. (Weber, 1947).they sell their labour. they can borrow money to manage peaks/troughs, Over time, their values set premiums on hard work, low risk investment, accumulation of education, good health and savings (Banerjee & Duflo, 2008: 22). This is the famous “middle class” consumption package. Their preferences favour public schools, healthcare and safe pensions.



How do we implemented our theory in the statistical model? The LCA tool



methodology

- Using the LCA statistical model and the EU-SILC data base we choose 3 case studies which

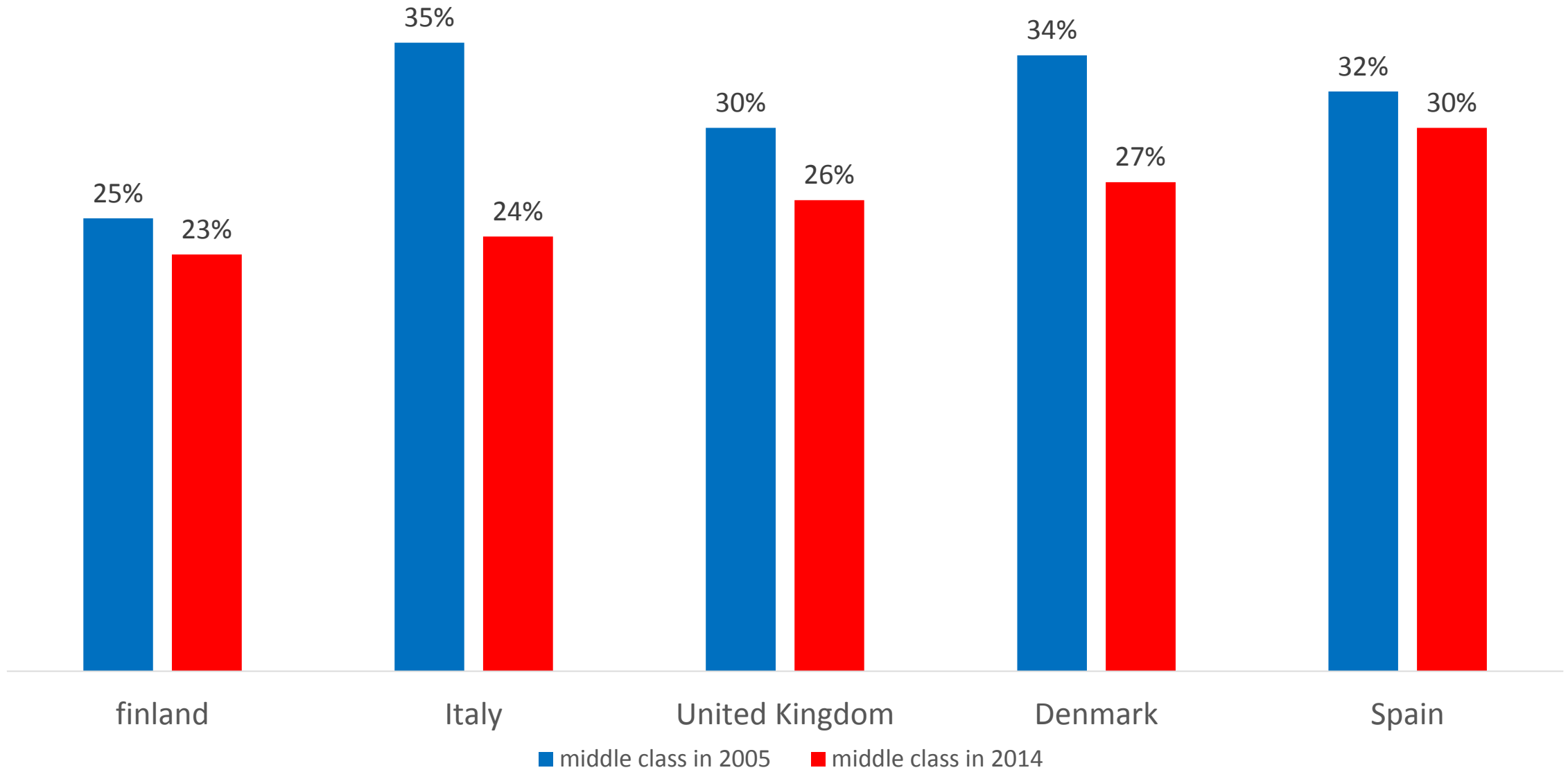
each of the case comprise a unique and puzzling case study

- ✓ The UK- the middle case in light of the Brexit
- ✓ Italy- made recent institutional reforms in order to improve Slow economic growth, Low productivity rate and low employment rate
- ✓ Denmark-High living standards but slow growth

The research period is 2005-2014

The middle class in selected OECD countries

2005-2014



The UK



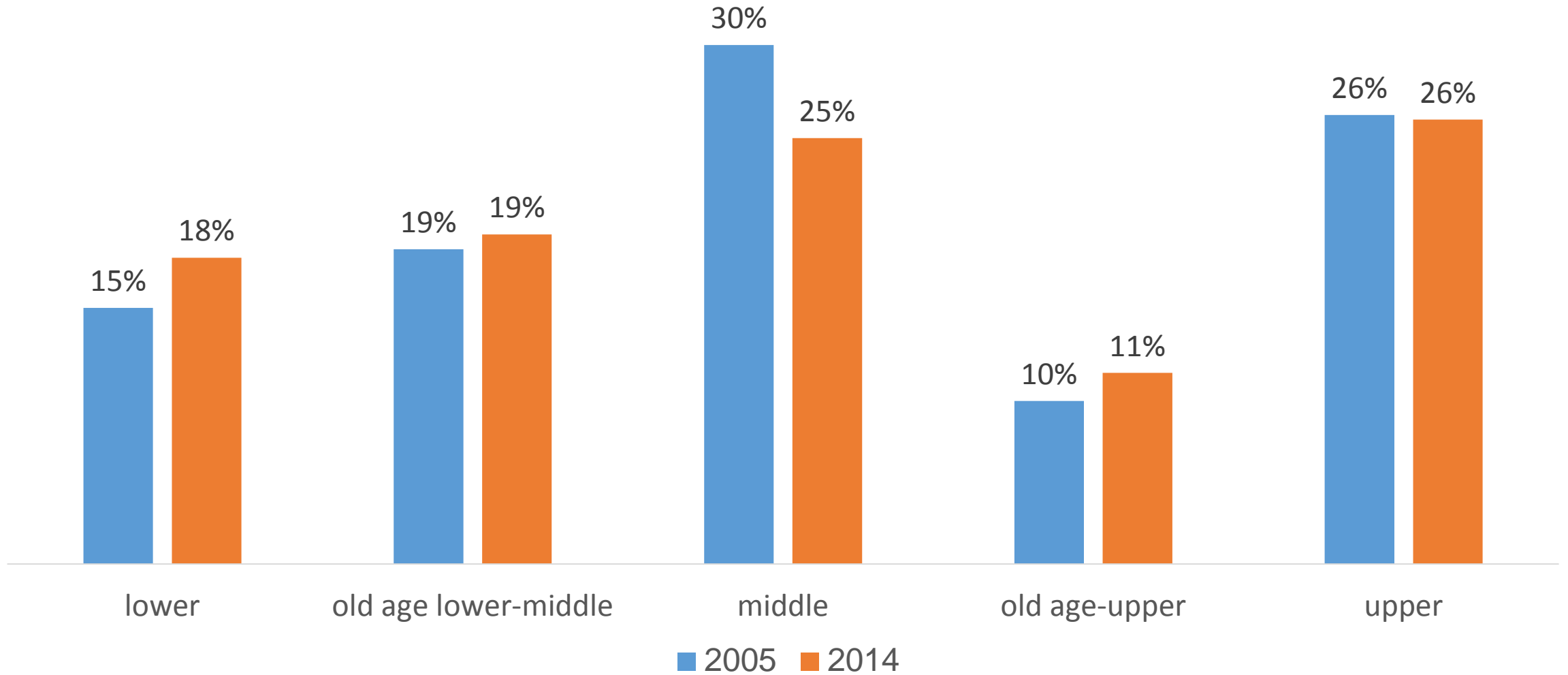
- ✓ Although Economic performance was solid until the end of 2016 the planned exit from the European Union (EU) in March 2019 (Brexit) cut growth to the lowest annualized rate in the G7 in the first half of 2017
- ✓ Over the past two decade the welfare policy has undergone many changes: “Universal credit” , “benefit cap”
- ✓ liberal welfare regime
- ✓ The puzzle:
 - the subjective measure suggested a deterioration in the well-being of society Vs measures of inequality and poverty, which describe an improvement.

UK- The middle class in light of the Brexit

class	lower	Lower-middle old-age	Middle class	Upper-middle old age	Upper
Class size	18%	19%	25%	11%	26%
Income Decile	1-4	1-6	5-9	6-10	7-10
Housing status-owner	23 %	67%	67%	94%	79%
Employment status	25% employee part time 25% disabled	93% in retirement	70% employee full time	90% in retirement	70% employee full time
Education highest certificate	51% lower secondary and less	88% lower secondary and less	50% Upper secondary	70% tertiary	85 tertiary
Private pension	1%	-	21%	-	26%

Source: EU-SILC, 2015

Classes in the U.K. 2005-2014

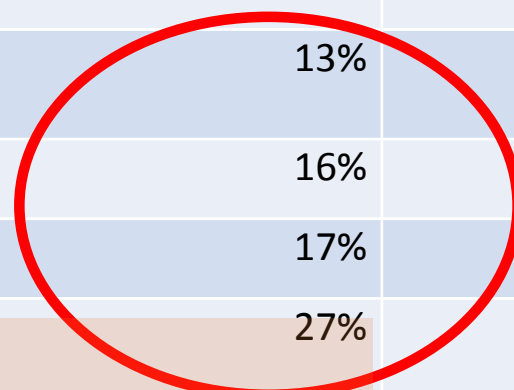


Occupational distribution by classes 2014

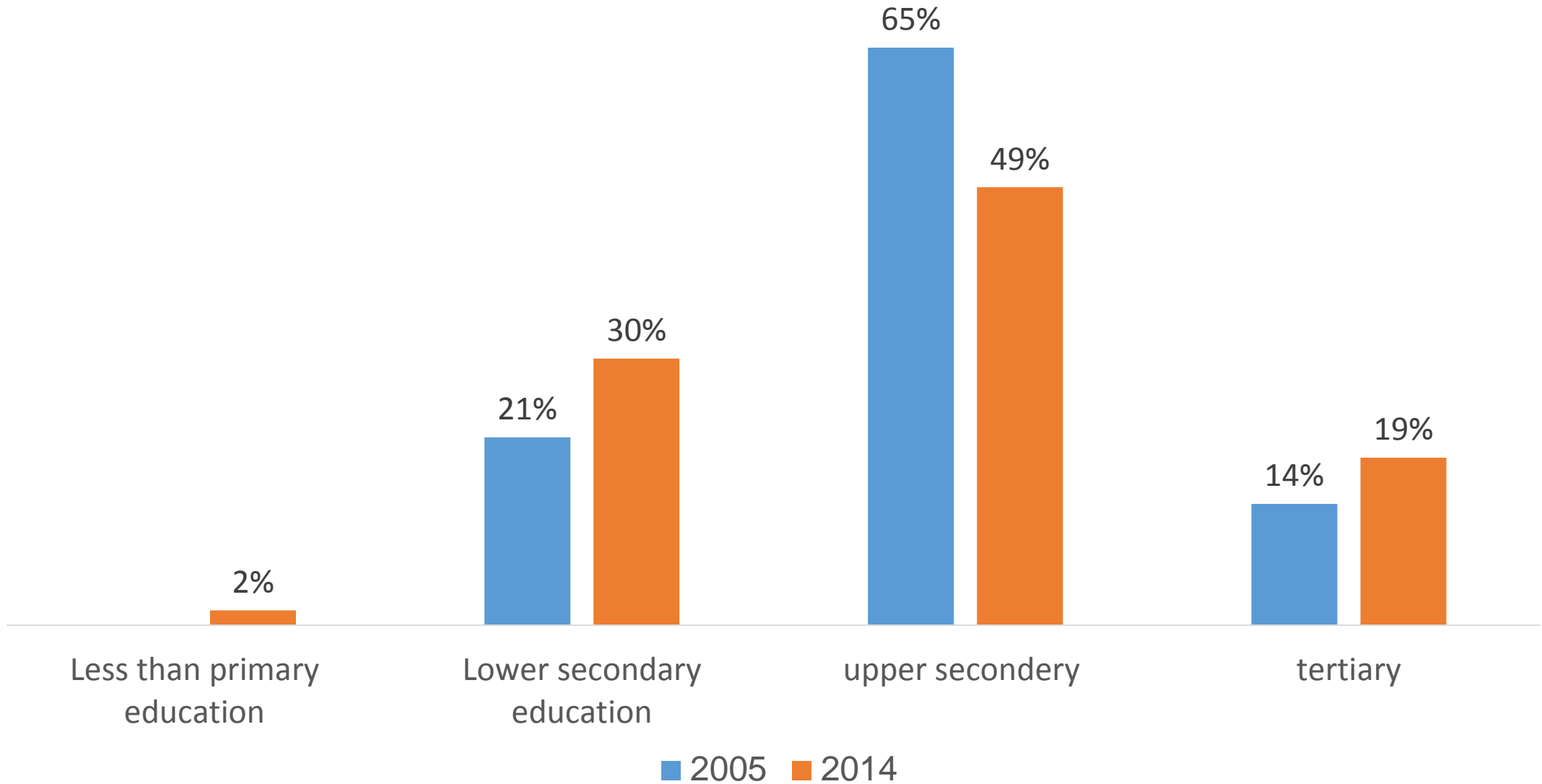
Class/ Type of occupation	lower	middle	upper
Armed forces	0%	1%	0%
Professional	3%	1%	57%
Market-oriented, Skilled agricultural	1%	1%	0%
Managers	5%	6%	20%
Elementary occupations	27%	9%	0%
Plant and machine operator	8%	10%	0%
Craft and related trades	7%	13%	0%
Associate professional	7%	16%	17%
Clerks	7%	17%	2%
Service workers and shop	37%	27%	3%
total	100%	100%	100%

Note that only about 50%, of the 26% of the upper class, i.e. about 15% of the of the population can be assumed to be 'prepared for the future world we are about to enter

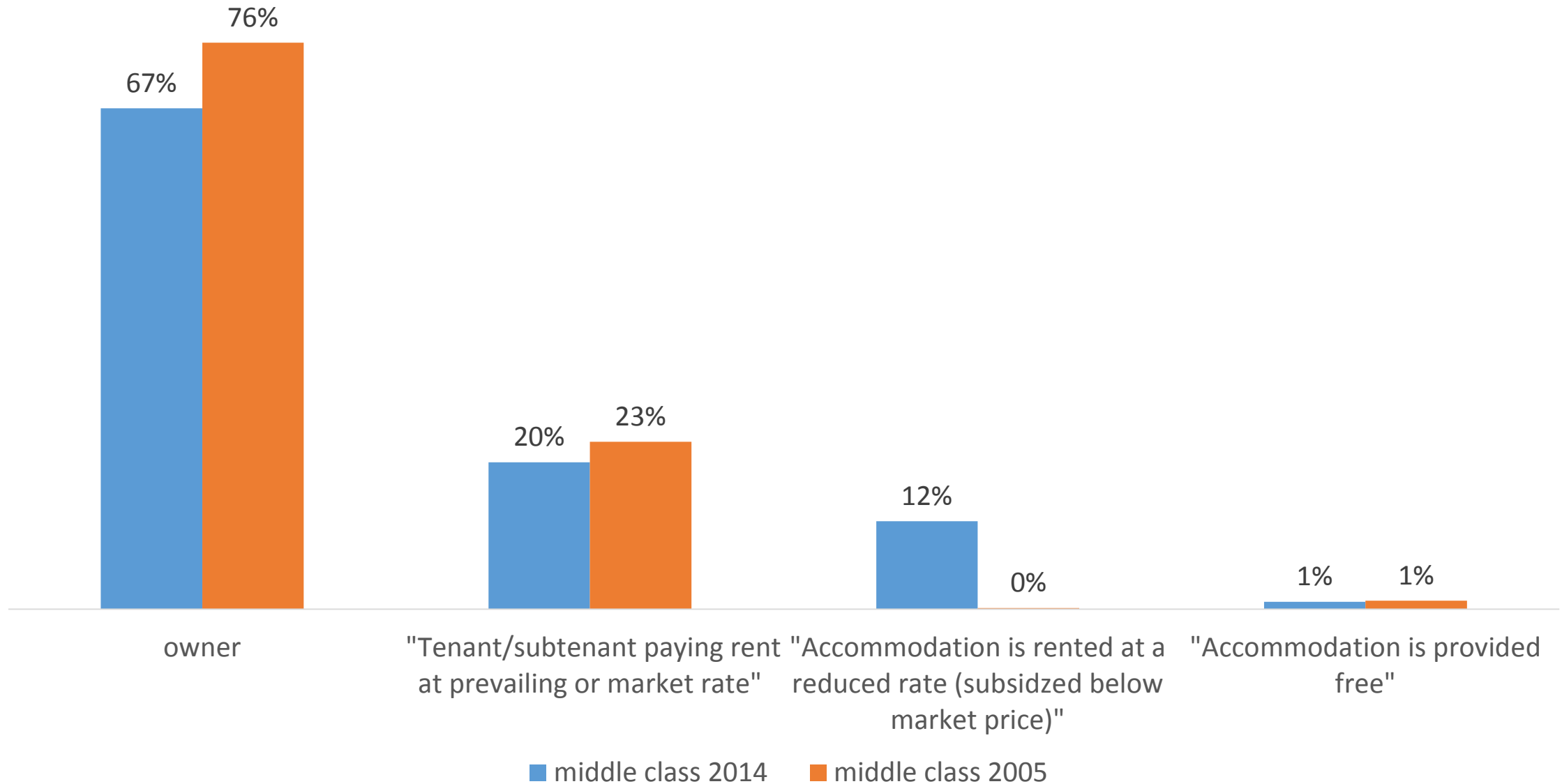
Note how education Splits the poor, elevating The middle and upper Classes to better jobs



Middle class education attained, UK 2005-2014



Middle class Housing tenure, 2005-2014



Summary regarding the UK case

- ✓ In the past decade the UK class stratification had changed- the size of the middle class has fallen while the size of the poor increased.
- ✓ the middle class suffers from moderate education level and also moderate occupation
- ✓ The middle class experienced an erosion in the education level.
- ✓ What makes one move into the middle class is having significantly more education and therefore higher occupation status which brings higher income, work conditions and pensions

These outcomes may explain the result of the referendum in 2016. the decision to leave the EU- union.

Italy= poor economic indicators in the shade of “structural reforms”

The image shows the Italian flag (green, white, and red vertical stripes) waving on a flagpole against a clear blue sky. The flag is positioned horizontally across the top of the slide, partially overlapping the title text.

✓ The puzzle:

-social public spending in Italy is very high compare to other OECD countries while economic indicators are still poor: Slow economic growth, Low productivity rate and low employment rate

-The state is fairly active in providing welfare services

-but welfare provision is segmented

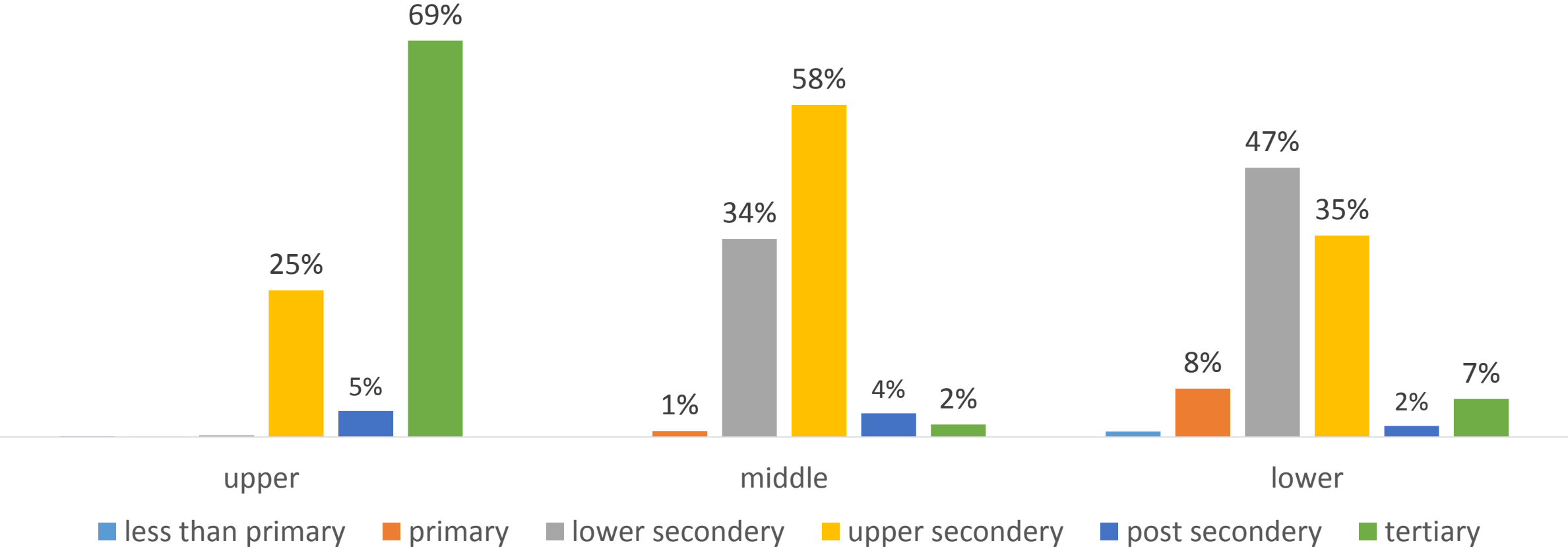
Italy- moderate economic indicators in the shade of “structural reforms”

	lower	lower middle	middle	upper middle- old age	upper
size	23%	24%	25%	12%	17%
Home owner	44%	81%	75%	92%	79%
Decile	1-4	2-6	4-8	7-10	7-10
Employment status	56% employed, 26 percent unemployed	79% retirement	88% employed (78% in full time)	89% retirement	94% employed (87 percent full time)
Education level	47% lower secondary, 35% upper secondary	61% primary 21% lower secondary	34 percent lower secondary, 58% percent in upper secondary	48% upper secondary, 23% tertiary	69% in tertiary, 25% upper secondary

Employment status by class

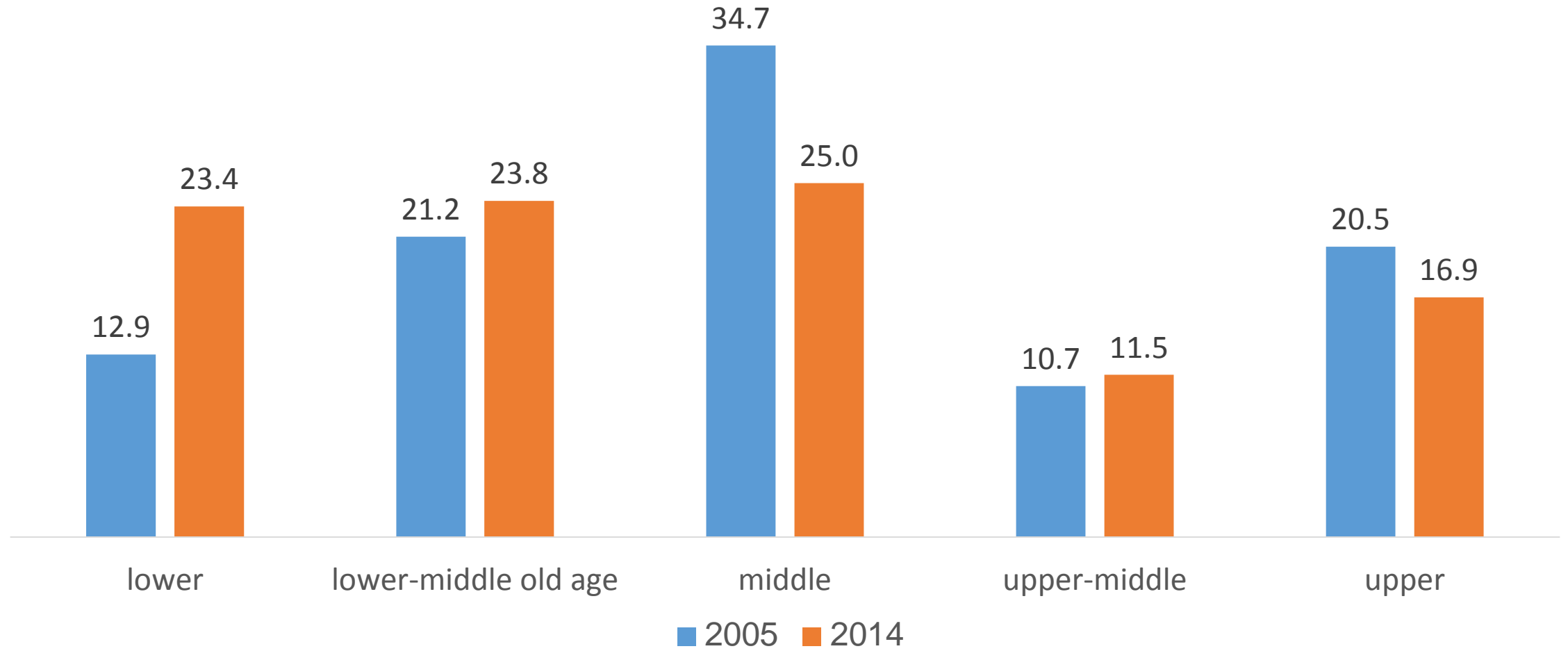
Year	2005			2014		
Class	Lower	Middle	Upper	Lower	Middle	Upper
"working full-time"	0%	64%	85%	42%	78%	87%
"working part-time"	0%	8%	8%	14%	9%	7%
"Unemployed"	6%	8%	1%	26%	1%	3%
"Fulfilling domestic tasks or care responsibilities"	64%	11%	2%	12%	5%	2%
"Other inactive person"	22%	2%	2%	2%	1%	1%
"In retirement or in early retirement or has given up business"	0%	5%	1%	0%	5%	1%
"Permanently disabled or/and unfit to work"	5%	1%	0%	2%	0%	0%
"Pupil, student, further training, unpaid work experience"	4%	0%	0%	0%	0%	0%

Education attainment by class, 2014



Source: EU-SILC, 2015

Changes in class membership, 2005-2014



Results regarding the Italian case

- ✓ In the past decade the class stratification had changed- the size of the middle class upper class fallen while the size of the poor increased dramatically.
- ✓ employment status provide a crucial indicator for class membership
- ✓ In order to sustain in the middle class or make an upward mobility , one should have better education attainment and employment status

Denmark- High living standards, slow growth

- ✓ high living standards and wellbeing
- ✓ Household income is distributed fairly equally in Denmark, the Gini coefficient is the lowest among OECD countries
- ✓ Unemployment is low, considering the “Nordic Model”

in parallel,

- ✓ Productivity growth has been slow
- ✓ Lack of balance between inclusiveness and work incentives
- ✓ Households hold large balance sheets and their debt is among the highest in OECD



Denmark: Model Results, 2014

	“Lower- young”	“Lower old”	“Middle non working”	“middle”	“upper”
size	9.43%	28.65%	9.65%	27.2%	25%
Home owner	5%	61%	82%	66%	63%
Decile	1-2	1-3	2-5	4-8	7-10
Employment status	22% Employed, 70 % students	96% retirement	24% employed	95 % employed (77% in full time)	97% employee (81 percent in full time)
Education level	71% upper secondary, 13% tertiary	40% lower secondary and less	29% tertiary secondary, 50% in upper secondary	74% upper secondary, 20%lower secondary	88% in tertiary,

Occupation by class, 2014

	upper	middle	lower
Armed forces	1%	1%	0%
managers	9%	2%	0%
professional	65%	3%	0%
associate prof	14%	13%	1%
clerks	5%	13%	7%
Service workers and shop	5%	26%	12%
Market-oriented, Skilled agricultural	0%	1%	0%
Craft and related trades	0%	15%	0%
Plant and machine operato	0%	10%	0%
Elementary occupations	0%	11%	3%
none	1%	6%	69%

Employment status by class, 2014

	lower middle	upper	middle	Lower young	lower and middle old age
working full-time"	0%	77%	74%	6%	0%
"working part-time"	0%	16%	21%	14%	1%
"Self-employed working full-time ("	18%	4%	3%	2%	0%
"Self-employed working part-time ("	6%	1%	0%	0%	1%
"Unemployed"	15%	1%	1%	7%	0%
"Pupil, student,	1%	0%	0%	70%	0%
"In retirement or in early retirement	23%	0%	0%	0%	96%
"Permanently disabled or/and unfit to work"	25%	0%	0%	1%	1%
"Fulfilling domestic tasks	3%	0%	0%	0%	1%
inactive person"	8%	0%	0%	0%	1%

Results regarding the Danish case

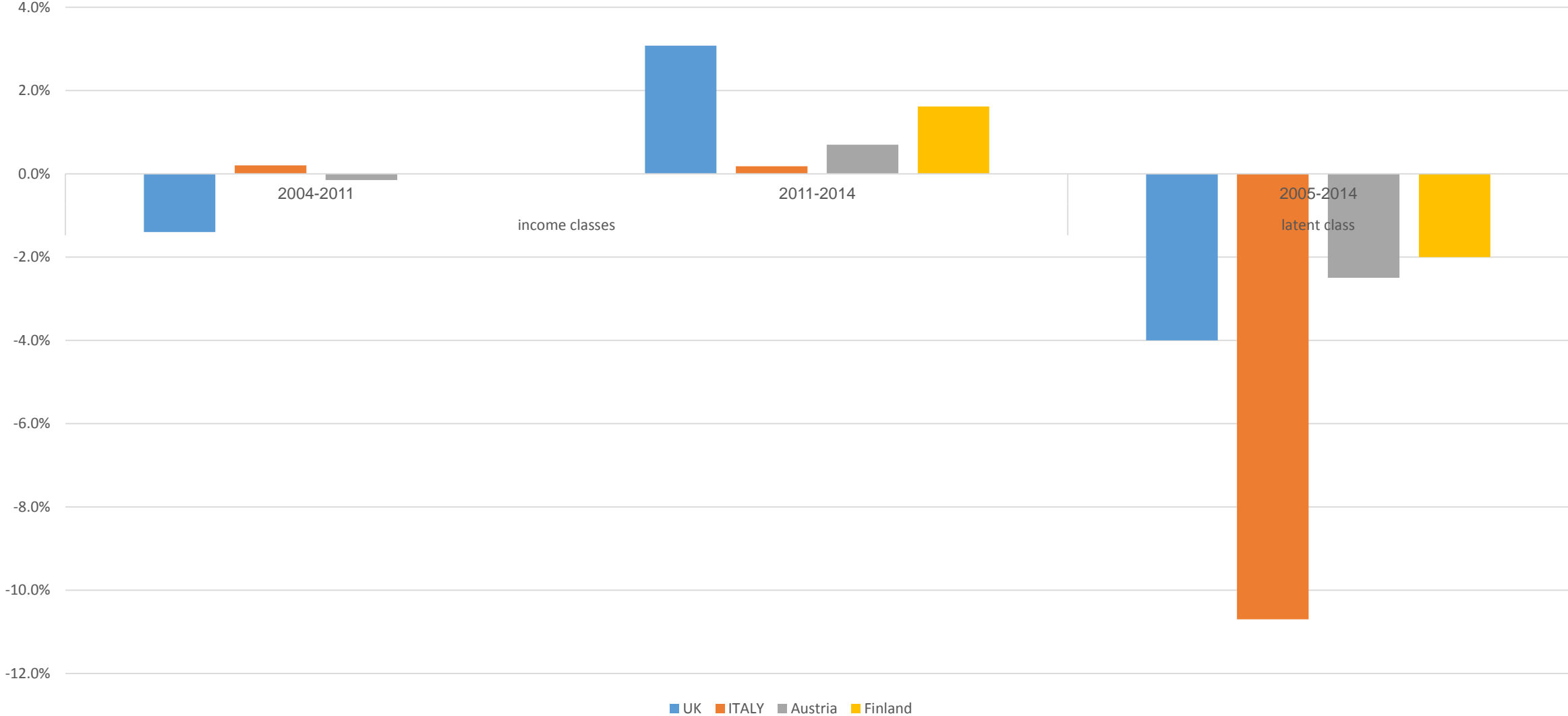
- ✓ A decline in the size of the middle class, more polarization to the edges.
- ✓ An increase in the size of the upper class And an increase in the size of the lower-middle class, mainly adults
- ✓ A unique class stratification” the “new vulnerable” class calls “middle non-working”
- ✓ The “lower class”- 70% students, in the future they will be in the middle class?

Comparison between the 3 case- general conclusions

- ✓ In Denmark we found the smallest decline in the size of the middle class, and we saw that the upper class was gaining strength.
- ✓ In UK there was a moderate decline in the size of the middle class, and the upper class remain stable will the lower increased.
- ✓ In Italy, however, the size of the middle class declined significantly, and the middle class became much more vulnerable, with very little human capital.
- ✓ The distinctive advantage in our multi dimension specification is the LCA tool which enables us to identify the unique problems faced by each country



changes in the size of the core middle class by two different approaches



Source: EU-SILC, 2015