



Under pressure

The squeezed middle class

Executive summary

Over the past decade, the OECD has documented the evolution of inequalities in income and opportunities in details in a series of flagship publications, from *Growing Unequal?* (2008), to *Divided we Stand* (2011), to *In it Together* (2015) and the latest release on *The Broken Social Elevator* (2018) that focused on social mobility and showed that opportunities for low and middle-income families to move up the ladder became limited over the past decades. The present report zooms in onto the *middle class* and sheds light on the multiple pressures this group faces.

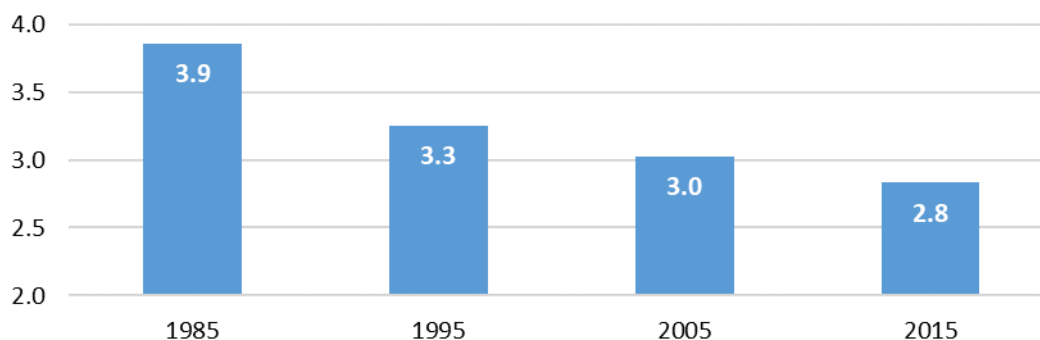
Why a focus on the middle class? The middle class used to be an aspiration. For many generations it meant the assurance of living in a comfortable house and affording a rewarding lifestyle, thanks to a stable job with career opportunities. It was also a basis from which families aspired to an even better future for their children. At the macro level, the presence of a strong and prosperous middle class supports healthy economies and societies. Through their consumption,

investment in education, health, and housing, their support for good quality public services, their intolerance of corruption, and their trust in others and in democratic institutions they are the very foundations of inclusive growth. However, there are now signs that this bedrock of our democracies and economic growth is not as stable as in the past.

Are middle incomes being hollowed out? On average across OECD countries, the share of people in middle-income households, defined as households earning between 75% and 200% of the median national income, fell from 64% to 61% between the mid-1980s and mid-2010s. The economic influence of the middle class and its role as “centre of economic gravity” has also weakened. The aggregate income of all middle-income households was 4 times the aggregate income of upper-income households three decades ago; today, this ratio is less than 3.

The loss of economic influence of the middle class

Aggregate income share of middle-income versus upper-income households, percentages



Why has it become more difficult for younger generations to make it to the middle class? Older generations are often better protected from changes in the labour market and from low-income risks than the younger generations. The middle-income group has grown smaller with each successive generation:

close to 70% of the baby boomers were part of the middle class in their twenties, compared with 60% of the millennials. The baby boom generation enjoyed more stable jobs during their working life than younger generations.

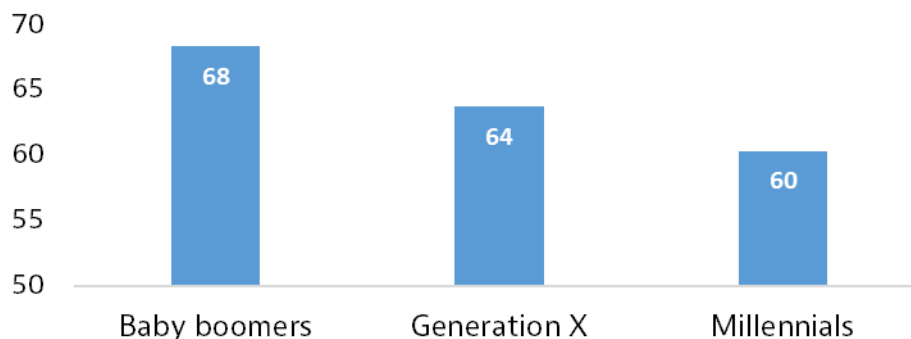


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The shrinking middle class

Percentage of population in middle-income households by generation, aged 20-30

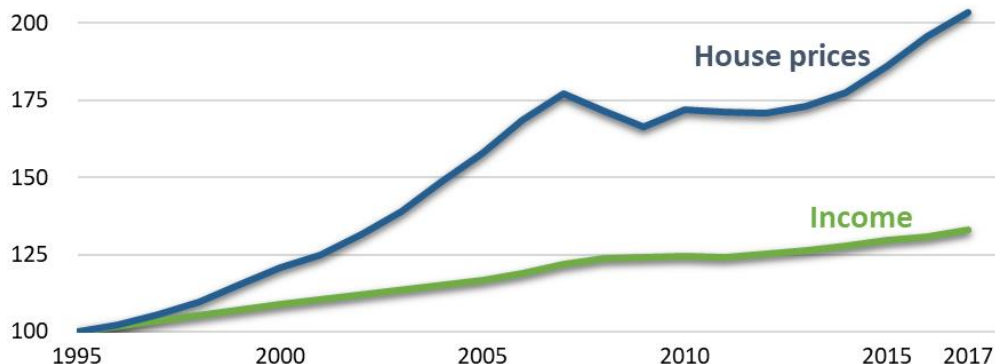


Is the middle-class under pressure? Middle incomes have indeed barely grown, in both relative and absolute terms in most OECD countries. Overall, over the past 30 years, median incomes increased a third less than the average income of the

richest 10%. In parallel, the cost of essential parts of the middle-class lifestyle have increased faster than inflation; house prices, notably have been growing three times faster than household median income over the last decades.

The rising expenditures for the middle class

House prices increased faster than income - Index 1995 = 100



This happened in the context of rising job insecurity in fast transforming labour markets. One-in-six current middle-income jobs face high risk of automation. More than one-in-five middle-income households spend more than they earn. Over-indebtedness is higher for middle-income than for both low-income and high-income households. As a result, today the middle class looks increasingly like a boat in rocky waters.

What can governments do about it? Among middle-class households, those at the lower end are more susceptible to suffer from these

growingly unstable conditions. They feel that the current socio-economic system is unfair. This can be addressed by reviewing and adapting the tax and benefit system. The report also discusses reforms in housing and education systems to make the middle-class lifestyle more accessible. More fundamentally, policies should aim at tackling vulnerabilities at the root. For this reason, education and training systems should offer a wider range of learning opportunities at various ages to foster mobility.