

Governments must act to help the struggling middle class

A strong and prosperous middle class is crucial for any economy, crucial for every society. It is needed to sustain consumption and investment in education, health and housing. Societies with a strong middle class have lower crime rates and enjoy higher levels of trust and life satisfaction. The taxes the middle class pay are essential to fund social protection. Moreover, the middle class is also essential for political stability and good governance.

For many generations, being part of the middle class meant owning a comfortable house, having a stable job with career opportunities, along with a comfortable standard of living and the hope of an even better future for your children. Yet, for many, the reality no longer lives up to the dream.

The middle class has shrunk in most OECD countries as it has become more difficult for younger generations to make it to the middle class, defined as earning between 75% and 200% of the median national income. Since the baby boomer generation, the middle-income group has become smaller with each successive generation. While almost 70% of baby boomers were part of middle-income households in their twenties, only 60% of millennials are today.

The economic influence of the middle class has also dropped sharply. Across the OECD area, except for a few countries, middle incomes are barely higher today than they were ten years ago, increasing by just 0.3% per year, a third less than the average income of the richest 10%.

Pressure and anxieties are mounting

Increasingly, pressures on the middle class are translating into a sense of anxiety about their economic situation. The OECD has identified three main sources of pressure.

First, many middle class households view the socio-economic systems as unfair. 58% of middle-income households in OECD countries feel that, given the taxes they pay, they do not receive their fair share of benefits and public services. In addition, they have not benefitted from the same income growth as the top 10%. Indeed, over the past 30 years - across OECD countries - the median income has grown a third less than the average income of households in the top 10%.

Second, the cost of a middle class lifestyle has increased faster than inflation. Housing, for example, makes up the largest single spending item for middle-income households, at around one third of disposable income, up from a quarter in the 1990s. House prices have been growing three times faster than household median income over the last two decades.

More than one in five middle-income households spend more than they earn and over-indebtedness is higher for them than for both low-income and high-income households. The evidence also shows that more than one in three people are economically vulnerable, as they lack liquid financial assets to maintain a poverty-level living standard for at least three months.

In addition, labour market prospects have become increasingly uncertain: one in six middle-income workers are in jobs that are at high risk of automation, compared to one in five low-income and one in ten high-income workers. Mid-level skills no longer guarantee making it to the middle-income group.

Time for a comprehensive action plan

To help the middle class, a comprehensive action plan is needed. Governments should improve access to high-quality public services and ensure better social protection coverage. To tackle cost of living issues, policies should encourage the supply of affordable housing. Targeted grants, financial support for loans and tax relief for home buyers would help lower middle-income households. In countries with acute levels of housing-related debt, mortgage relief would help overburdened households get back on track.

As temporary or unstable jobs - often offering lower wages and job security - increasingly replace traditional middle-class jobs, more investment is needed in vocational education and training systems. Social insurance and collective bargaining coverage for non-standard workers, such as part-time or temporary employees or self-employed, should be extended.

Middle-income households are the main stakeholders of both taxes and benefits: they contribute two thirds of direct tax revenues and they receive 60% of public spending on cash benefits. To foster fairness of the socio-economic system, policies need to consider shifting the tax burden from labour income to income from capital and capital gains, property and inheritance, as well as making income taxes more progressive and fair.

Policies to support the middle class should follow a holistic approach that involves different policy areas, paying attention to the prevention of risks and the promotion of opportunities over the lifecycle. Mitigating the impact of adverse situations when they arise is essential, but improving prospects in the labour market for middle-class workers and their children may be even more important. Governments do have a large set of policy tools available to address these challenges of unfairness, unaffordable expenses and employment vulnerability. A successful strategy will require a whole-of-government approach should involve all stakeholders including civil society and the social partners.

<http://oe.cd/middle-class-2019>