

## The middle class, experiencing ever-increasing difficulties?

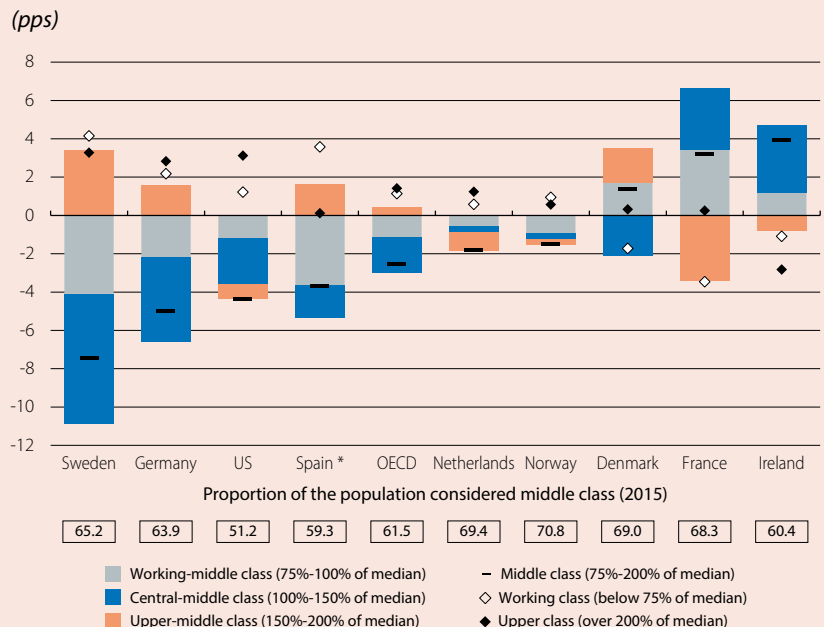
The dream of belonging to the middle class is associated with reaching a good level of financial security and comfort: being able to pay bills on time, having stable employment and saving for retirement. But is this dream increasingly difficult to achieve? In this article we analyse the evolution of the middle classes in advanced countries in recent decades, focusing in particular on the trends in Spain's middle class over the last decade.

### Size and income of the middle class

The size of the middle classes<sup>1</sup> as a proportion of the total population has gradually reduced in advanced countries over the past 30 years, although they still represent the majority of society.

- The middle-income classes have gone from representing 64% of the population of advanced countries in the mid-1980s to 61% in 2015, losing around 1 pp each decade.<sup>2</sup> This moderate decline has occurred both in countries with a large middle class (such as Sweden or Germany, where it represented 65.2% and 63.9% of the population in 2015, respectively) and in countries with a relatively smaller one (such as the US, at 51.2%). It has also gone hand in hand with an increase in both the working classes and the upper classes, with the resulting accentuation of inequality.
- Inequality has not only increased between social classes in advanced countries, but also within each social class. Within the middle class, the size of the working-middle class has reduced (by -1.1 pp between 1985 and 2015), as has that of the central-middle class (-1.8 pps), while the upper-middle class has grown slightly (+0.4 pps).<sup>3</sup>
- In Spain, the weight of the middle class has shrunk by some 3.7 pps in three decades, while the working classes have grown in the same proportion. Nevertheless, the middle class still represented 59.3% of the population in 2017. In Portugal, 60.1% of the population belonged to the middle class in 2015, a proportion similar to the OECD average.<sup>4</sup>

### Change in the proportions of middle-class population between 1985 and 2015



In advanced countries, the income of the middle classes has tended to stagnate in the last decade and fall behind that of the upper classes.

- After increasing by an average of 1.5% per year between 1985 and 2008, the median income of advanced countries grew by 0.4% per year between 2008 and 2016.<sup>5,6</sup> On the other hand, for the 10% with the highest income, the median increased by 2.3% per year between 1985 and 2008, and by 1.2% per year between 2008 and 2016. Thus, the pace of growth of the median income was lower among the middle class than it was for that 10% of the population with the highest incomes.

**Notes:** Working-class households are defined as those with incomes that lie below 75% of the national median; middle-class households, as those with incomes between 75% and 200% of the national median, and upper-class households, as those with incomes over 200% of the national median. The boxed figures indicate the proportion of the population considered middle class in 2015. \* For Spain, the proportion of the middle-class population corresponds to the year 2017 according to the living conditions survey conducted by the National Statistics Institute (2019).

**Source:** CaixaBank Research, based on data from the OECD (2019) and from the living conditions survey by the National Statistics Institute (2019).

1. Middle class defined as belonging to a household with an income that represents between 75% and 200% of the national median (see the article «Who is the middle class?» in this same Dossier for further details on the definition used). The most recent data refer to 2018 for Spain and to 2015 for all other advanced countries.

2. See OECD (2019). «Under pressure: the squeezed middle class».

3. The lower-middle class corresponds to households with incomes that lie between 75% and 100% of the national median; the mid-middle class, to households with incomes between 100% and 150%, and upper-middle class, to households with incomes between 150% and 200%.

4. For Portugal there are no available data to calculate the change since the 1980s.

5. In nominal terms.

6. The available data on income for advanced countries correspond to the median income of the total population, which is very close to the median income of the middle class according to the OECD. The same applies to the income of the top 10%, which is very similar to that of the upper classes.

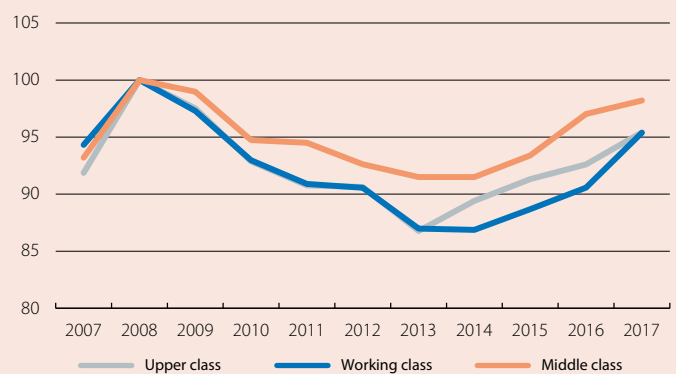
- The middle classes of advanced countries account for the bulk of total household income (64% in 2015), but have lost weight and influence relative to the upper classes due to slower income growth.<sup>7</sup> The total income of the middle classes was 3.9 times greater than that of the upper classes in 1985, but fell to 2.8 times in 2015.
- Despite this relative loss of income in relation to the upper classes, the middle class enjoys more stable incomes than the rest of the population, thanks in part to much higher employment stability than that of the working classes.<sup>8</sup>

**In Spain, the income of the middle class declined in the financial crisis, although on average it suffered less than that of the rest of the population. However, in the past few years these income levels have only regained some of the lost ground.**

- With the financial crisis, middle-class households suffered a smaller reduction in their incomes than the rest of the population. Specifically, their incomes fell by 8.5% between 2008 and 2013, while for lower-income class households the reduction was 13.0% and for upper-income class households, 13.2%.<sup>9</sup>
- In 2017, a middle-class adult in Spain earned 18,100 euros a year on average, having recovered more than 1,000 euros compared to the low point experienced during the crisis. Even so, their income was still slightly below the high point reached prior to the crisis (18,400 euros in 2008).<sup>10</sup>

### Spain: changes in household income by class

(100 = 2008)



**Note:** Lower-income class households are defined as those with incomes that lie below 75% of the median; middle-income class households, as those with incomes between 75% and 200% of the median, and upper-income class households, as those with incomes over 200% of the national median. Income figures in nominal terms.

**Source:** CaixaBank Research, based on data from the living conditions survey by the National Statistics Institute.

### The cost of living of the middle class

**The cost of the middle classes' standard of living has increased in advanced countries over the past 30 years, and housing has come to represent nearly one-third of their expenses.**

- The middle class has continued to enjoy a standard of living free from severe deprivation in terms of basic needs. However, their way of life is increasingly expensive.
- In the composition of the middle class' consumption, basic items such as food and clothing account for an increasingly smaller portion of the total (amassing a cumulative decrease of 6 pps and 4 pps between 1995 and 2015 in the OECD on average), while housing (+11 pps) and, to a lesser extent, healthcare (+3 pps) have gained prominence.
- Indeed, housing represents the middle classes' biggest expense (31.0% of the total in 2015), with a particularly marked increase in Spain (32.8% of expenditure in 2015, an increase of +8.4 pps in 20 years) and in Portugal (33.2% in 2015, +15.2 pps).
- The increase in costs is in addition to a certain desire for lifestyle change. Several studies suggest that the high-flying lifestyle of the upper class encourages those on lower incomes to increase their spending as they seek to imitate those consumption trends.<sup>11</sup> An example of this behaviour is the increase in «conspicuous consumption», that is, expenditure on goods and services to maintain a certain social status (for example, clothing, watches, cars, etc.).<sup>12</sup>
- As a result, there has been an increase in the proportion of middle-class households experiencing financial difficulties, being in arrears on payments or struggling to reach the end of the month. In particular, half of middle-class households in OECD countries admit to having difficulties in reaching the end of the month or in maintaining their standard of living.<sup>13</sup>

7. See OECD (2019), «Under pressure: the squeezed middle class».

8. See the article «[The future of the middle classes: technology and demographics will bring change, but they will not disappear](#)» in this same Dossier for further details of the trends and outlook for employment in the middle classes.

9. Following the crisis, middle-class household incomes increased by 7.3% between 2012 and 2017, somewhat less than in the case of working-class and upper-class households (+9.7% and +10.0%, respectively).

10. Nominal figures calculated using the microdata from the living conditions survey conducted by the National Statistics Institute. See the next section on the increase in costs of the middle class' standard of living.

11. See R.H. Frank, A.S. Levine and O. Dijk (2014). «Expenditure Cascades». *Review of Behavioral Economics*, 1(1-2), 55-73.

12. See E. Currid-Halkett (2017). «The sum of small things: A theory of the aspirational class». Princeton University Press.

13. See OECD (2019), «Under pressure: the squeezed middle class».

In Spain, middle-class households suffered from financial difficulties with the financial crisis, although once again they were less affected than the working class.<sup>14</sup>

- During the height of the crisis, around one-third of Spain's middle-class households experienced difficulties in dealing with unforeseen expenses or in reaching the end of the month. The situation has improved in recent years: in 2018, some 20.3% of middle-class households declared having difficulties in reaching the end of the month, clearly below the percentage of 2008 (26.3%).

### Spain: financial difficulties by class

(% of households)

	Working class			Middle class			Upper class		
	2008	2013	2018	2008	2013	2018	2008	2013	2018
Have been in arrears on utility bill payments	7.1	13.0	13.6	2.7	4.7	3.4	0.6	2.3	0.8
Have been in arrears on consumer loan payments	17.4	29.0	20.3	6.3	10.7	5.3	2.1	8.1	1.7
Have had difficulties in dealing with unforeseen expenses	49.8	64.6	60.0	24.0	33.8	28.6	4.9	10.2	6.1
Have had difficulties in reaching the end of the month	46.7	57.2	44.9	26.3	30.3	20.3	6.7	11.6	5.2

**Note:** Percentage of households in each class that report arrears or difficulties. Payment arrears refer to at least one late payment per year.

**Source:** CaixaBank Research, based on data from the living conditions survey by the National Statistics Institute.

- However, the percentage of middle-class households with severe material shortages at any given time is low. Furthermore, the percentage experiencing arrears on utility bill or consumer loan payments is much lower than it is among the working class. At the height of the crisis, 7.8% of middle-class households went into arrears on their mortgage payments, compared to 21.5% of poor households.

Home ownership remains an important feature of Spain's middle class, although the percentage who rent is increasing.

- Most of the middle class in Spain continue to own their home (79.2% in 2018), a much higher proportion than among the working class (64%). However, in the last five years the percentage who rent has increased by 5 pps, reaching 15.5% in 2018 (26% of the working class rented their home in the same year).
- In 2018, middle-class households who rented spent an average of 23.5% of their income on rent, a higher proportion than middle-class households with a mortgage (17.6%). For working-middle class households, the burden of rent payments was even higher (26.8% of income) and was also greater than the percentage allocated to paying a mortgage (21.9%).
- Middle-class households with a mortgage spent a smaller percentage of their income on their mortgage payments in 2018 than in 2013. Specifically, the average mortgage payment for a middle-class household declined from 512 euros in 2013 to 451 euros in 2018, partly thanks to more favourable financial conditions.

### Spain: housing and the middle class

(%, unless otherwise indicated)

	Middle class		
	2008	2013	2018
<b>Form of housing tenure</b>			
Ownership	–	83.3	79.2
with a mortgage	–	38.8	35.9
Rent	–	10.8	15.5
Provided free of charge	–	5.9	5.3
<b>Expenditure on housing *</b>			
Represents a heavy burden	57.5	57.8	49.3
Average rent (euros)	490.2	503.9	483.3
Percentage of income	22.2	24.1	23.5
Mortgage payment (euros)	650.1	512.5	451.5
Percentage of income	23.4	21.4	17.6

**Note:** \* Average for those who rent their home or pay a mortgage (excludes housing provided free of charge and property ownership without a mortgage).

**Source:** CaixaBank Research, based on data from the living conditions survey by the National Statistics Institute.

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14. Working-class households lost a greater proportion of their income than middle-class households.