

EXECUTIVE SUMMARY



International
Labour
Office
Geneva

LONG TERM TRENDS IN THE WORLD OF WORK: EFFECTS ON INEQUALITIES AND MIDDLE-INCOME GROUPS

International debate has recently focused on increased inequalities and on the adverse effects they may have on both social and economic developments (for example, as demonstrated by both OECD and IMF reports over the course of 2015). At the same time income inequality is at its highest level for the past half century.

The aim of this conference is to address the question of income inequality from two different angles: first, identifying what elements and trends in the world of work may have contributed to income inequality; second, tackling inequalities from the perspective of different income groups – and not only from the two extremes, the top and the bottom – but in particular from the perspective of middle-income groups or what we generally categorize as the ‘middle-class’.

To prepare this conference the ILO together with the EC put in place and coordinated a group of high level national experts to carry out research (collecting statistics and carrying out case studies) and provide evidence on the general trends with regard to inequalities and middle-income groups and on their inter-relationship with the world of work.

The conference volume comprises 13 country-specific chapters and an introductory chapter which gives a comparative overview. It explores such questions as: Are increasing income inequalities and increased polarization leading also to the erosion of the middle class? What are the main transformations in the world of work over the past 20 years that may have affected the middle class? How has the middle class been affected by the financial and economic crisis? And what are the driving forces in the world of work that may contribute limiting and even reducing income inequalities in the future?

Main results: the growth and erosion of the middle class

First, the middle class in most European countries experienced a rapid increase in the 1980s and 1990s. Labour market participation has increased over time and represents an important factor in the middle class increase. In particular, higher labour market participation among women since the 1980s and 1990s has totally changed the number of working adults in households and thus has also increased the probability of belonging to the middle class. For instance in Spain, the female participation rate grew from 29 per cent in 1986 to 53 per cent in 2014 alongside fairly regular growth. A number of national reports confirm that the development of a dual household model helped to increase the size of the middle class, as in the Netherlands, Portugal, Spain, Sweden and many others.

A rapid expansion of jobs in the public sector in the last two decades in Europe also contributed to significant job growth in the middle class. The public sector hosts many of the professions traditionally associated with the middle class – school teachers, doctors and civil servants, for example.

At the same time, the past decade seems to have brought some erosion of the middle class. The expansion of the number of middle-income households below median income levels is reported in most countries. The changing structure of jobs and occupations and additional factors brought about by the recent financial and economic crisis, such as further increases in unemployment, especially among young people, further real wage moderation or decline, the reforms of social dialogue

institutions, and cuts in both employment and wages in the public sector all seem to contribute to the erosion of the middle class in Europe. Involuntary part-time work in almost all professions and in both the public and the private sectors also increased significantly since the crisis. As described in a number of national chapters, a sort of vicious circle has developed: the crisis has weakened the middle class, which in turn has reduced aggregate demand, thereby deepening and prolonging the downturn.

Some occupations that traditionally represented the middle class such as teachers may not systematically belong to the middle income groups anymore. The number of temporary contracts in the public sector has increased rapidly throughout Europe. Employment security is thus no longer the norm in the public sector that does not seem to represent a lever for employment growth for the middle class as witnessed in the past.

Women have been particularly affected by this process. The public sector is not only a major source of employment for women but also provides many jobs for highly qualified women, and the above processes therefore directly affect the dual household model and the growth of the middle class. Lower supply and sometimes lower quality of public services is also affecting the middle class traditionally in demand for such services, especially women who wish to continue their participation in the labour market.

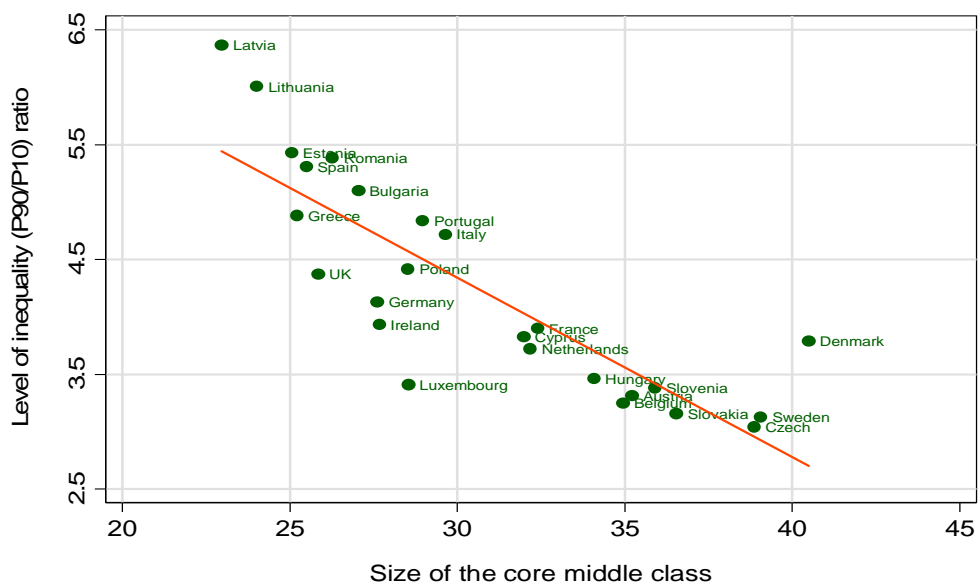
Different chapters in the conference volume show how very high youth unemployment rates could result in a lower probability of being part of the middle class in the future, and would thus lead to a form of intergenerational gap. By contrast, lower youth unemployment rates as in Belgium or Germany could help younger generations to achieve or maintain middle class status.

The situation of older workers also has an impact. Employment rates for older workers (55–64 years) have increased during the past decade. The postponement of exit at the end of job career entails a lengthening of working life and provides a means of sustaining middle class status.

The link between polarization and the middle class

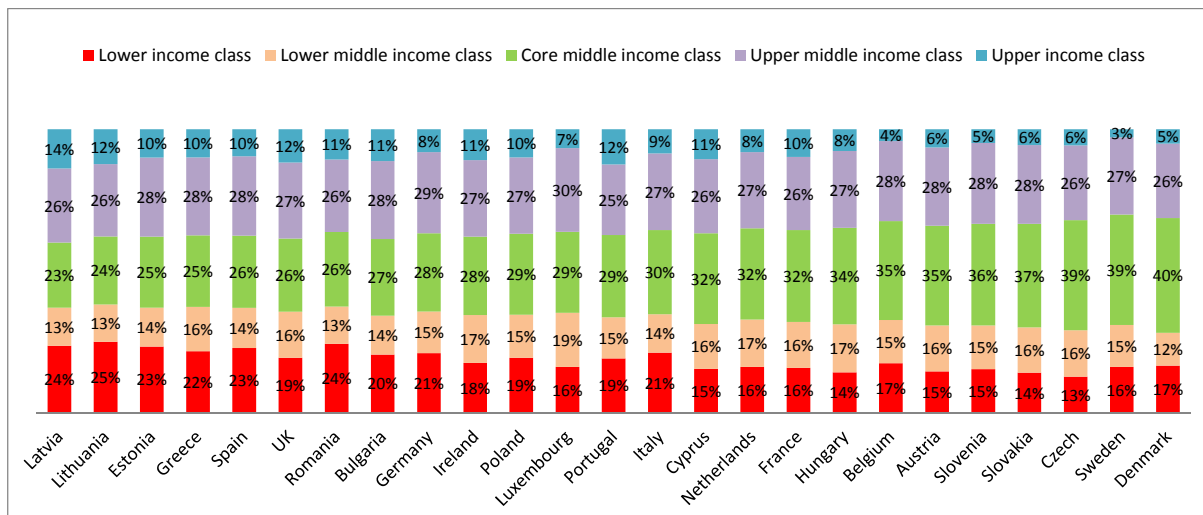
The findings of the group of experts make a direct linkage between increased income inequalities and the erosion of middle income groups, and confirm the need to tackle inequalities also by looking at what is happening to the ‘middle class’. The figure below shows a direct correlation (as shown by the red line and by a R-Squared or coefficient of determination of 0.71 for 2011) between the level of income inequalities and the size of the core middle class. The conference volume also finds a direct correlation between the trends of these two indicators overtime. On this basis, we can predict that the increase in inequalities documented recently by several international organizations (OECD, IMF, ILO, EC) must have been accompanied by an erosion of the middle class.

Correlation between the level of inequality and the size of the middle class, selected EU countries, 2011 (R² = 0.71)



Another relationship emerges from the data, one between the decline in the middle class and its original size.¹ The size of the core middle class in Europe varies considerably from country to country, from 23 per cent in Latvia to 40 per cent in Denmark (2011). The map of the EU shows a more substantial middle class in the Nordic countries – Denmark, Sweden – and a smaller middle class in both the south (Greece, Spain) and in central and eastern Europe (Latvia, Lithuania, Estonia).

Size of income classes based on net household income, selected EU countries, 2011



Source: EU-SILC

Policies and institutions can make a difference

Considering the importance of participation in the labour market, all measures that contribute to increasing such participation tend to have a direct impact on the stability and even growth of middle-income groups. For instance the use of vocational training and short-time working schemes in a number of EU countries during the recent crisis contributed to limiting unemployment and helped younger generations to maintain some basis to achieving middle class status.

Similarly the long term trend of jobs polarization reported in this conference calls for an ambitious programme of upgrading to ensure employees will acquire the necessary new skills to match those required on the labour market, Sweden and Germany providing interesting developments in this direction.

Industrial relations as a process for influencing the world of work and thus inequalities were found to play a particular role. Even if industrial relations systems are very different between, for instance, Belgium, France, and the Netherlands, its resilience in those three countries seems to have represented one major reason for relatively lower inequalities and a greater stability of the middle class.

Conversely, the weakening of a number of mechanisms of social dialogue since the crisis began seems to have had a direct impact on the world of work with significant effects on inequalities and the middle class. Long-term transformations in industrial relations and labour markets can also explain the growth of the low pay segment and the erosion of the middle class. In this context, minimum wage policies contribute to lifting the income position of those at the bottom of the wage scale and facilitate their households' progression towards the middle group categories.

Mechanisms of wage fixing and wage bargaining were also found to play some role. While the removal of the wage indexation mechanism in Italy in the early 1990s was accompanied by an immediate increase in inequalities, the survival of the indexation system in Belgium seems to have

¹ Within entire distribution, we capture the middle class size through three middle-income groups: lower middle (below 80% of median income), core middle (80 to 120%) and upper middle (120 to 200%), complemented by the two other extremes, namely the lower income group (below 60%) and the upper income group (above 200%).

contributed to limiting inequalities and to stabilizing the middle class. Extension mechanisms and coordinated collective bargaining in a number of countries also contributed to more coherence along the income scale and less inequalities between the two extremes. This should induce policy makers to think more about these mechanisms that may have been put on hold in the recent years. More generally social partners in collective bargaining talks at both national and EU level can help to ensure a fair and efficient redistribution of productivity at national, sectoral or enterprise levels.

The public sector should be seen from the double perspective of a major source of employment and income and of matching users' needs in terms of public services, both important aspects for various income groups including the middle class. We have seen how child care facilities have facilitated women's participation and the growth of the dual earners' model. The provision of care services for the elderly is also an important source of employment to match the needs of an ageing population while providing work to a considerable number of workers, especially women.

Other institutions and policies beyond the world of work contribute greatly to the outcomes in terms of inequality and the middle class. An effective tax policy is essential to avoiding an increase in both income extremes and to reducing inequalities, while at the same time augmenting the number of people belonging to middle-income groups. The various chapters in this volume also highlight the importance of education for moving people into middle or upper income groups, even if higher education does not seem to represent a sufficient asset anymore for middle-income groups to avoid employment and income insecurity. Public services also affect income groups from both employee and user perspectives, and must be integrated into this equation.

The erosion of the middle class is worrying – especially when it seems to hurt young people most of all, thus leading to an intergenerational gap – and calls for policy initiatives. Increased inequalities and the progressive erosion of the middle class therefore require policy action specifically aimed at arresting this trend. This volume highlights policy programmes such as those mentioned above that could help to reduce inequalities and strengthen the middle class. Such initiatives could be launched in the world of work as well as in related areas, such as taxation, education and social protection. This calls for a new and comprehensive policy agenda extended to different and complementary fields aimed specifically at the middle class as a target group and leading to both sustained economic growth and improved living standards.