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State of Europe

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European Middle Classes in Trouble?

Steffen Mau, University of Bremen*

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The middle class is often understood as one manifest falsification of the Marxist theory, predicting that capitalist societies will become dominated by two antagonistic classes, the proletariat and the owners of capital. Therefore, the emergence and growth of the middle class has been taken as evidence that capitalist democracies are able to facilitate broad societal participation in the economic surplus; it is seen as the epitome of class compromise. Comparativists contend that the middle-class society is a European speciality. Though the middle class in Europe has long-standing roots, today it is the functioning of the European Social Model – which combines economic growth with broadly shared high living standards, labor market inclusion, moderated inequality and social protection – that is crucial to the fortunes of the middle class. (Mau and Verwiebe 2010).

While the concept of the middle class is pertinent throughout Europe, it was the special path Western European countries took in the second half of the nineteenth century that has shaped much of our understanding of the middle-class society through the present day. In normative terms, the middle classes are assumed to enjoy a comfortable standard of living and a certain

*The author may be reached at: smau@bigsss.uni-bremen.de

degree of economic security and have a more or less steady job during working age. In the political sphere, the 'middle' became the pivotal group, with political parties seeking to attract voters from the broad middle classes. As voters they simply outnumbered other groups, making it virtually impossible to govern against them. With some deviation, southern Europe followed the trajectory of Western Europe, catching up through processes of democratization, educational expansion and economic growth, but also through the pull-effects of European Union (EU) membership. In Eastern Europe as well, middle-class society has been less dominant and much smaller, but here, too, significant segments of the urban population share features of the middle classes. In global comparison, EU member states are characterized by relatively high income, a compressed income distribution, and an above-average living standard.

However, this idealized picture of the middle class has received visible scratches throughout the past decade (Mau 2012), raising the question of the changing nature of society. Notwithstanding considerable variation in socio-economic development in the European region, the middle class appears less and less to be a zone of socio-economic comfort and stability. In a number of countries, the economic losses of the middle classes are remarkable, undermining their fundamental sense of social security. Status anxiety is spreading among members of the middle class and there is some justification for speaking of an 'endangered middle class'. Today, the European middle classes have lost some of their self-esteem, and a significant share face economic hardship at unprecedented levels. At the same time, their political strength is seriously challenged, while actors outside the domestic political arena have gained power.

We have been unable to integrate young people in particular into the European social fabric. They confront formidable barriers to labor market access and face a lack of social entitlements.

Socio-economic losses

The postwar period in Western Europe was one of protracted economic growth, but this has now come to a halt. Across the EU, economic output is either stagnating or even in decline, and there are few signs that Europe as a whole will return to growth rates to which it was accustomed. In some countries, such as Greece, Ireland, Italy, Portugal, and Spain, people even experienced massive losses in real wages and a significant decline in living standards. According to Eurostat, median equivalized net income declined significantly in the EU-15 from 2008 to 2009 and has only marginally increased since. Unemployment has jumped in the EU from the beginning of the crisis to today by 10 million, and in most European countries the labor market is worsening. The unemployment rate is now 10.9 percent, more than 4 percent higher than five years ago (International Labour Organization 2013). We have been unable to integrate young people in particular into the European social fabric. They confront formidable barriers to labor market access and face a lack of social entitlements. At the same time, economic hardship has become more widespread among the members of the middle classes: In 2009, more than 80 percent of all middle-class households in Greece and Portugal, more than 60 percent in France, Ireland, Italy, and Spain, and more than 40 percent in Austria and the United Kingdom (UK) found it difficult to make ends meet with their monthly income (Burkhardt et al. 2012). We are also seeing first indications that this economic hardship is negatively impacting health status, and that this is increasingly affecting members of the middle class (Stuckler et al. 2011).

Two studies from the Organisation for Economic Co-operation and Development (OECD) on the development of social inequality, "Growing Unequal" (2008) and "Divided We Stand" (2011), have provided evidence that since the mid-1980s, there has been a continuous increase in income inequality in almost all OECD countries. Inequality has risen in countries with a traditionally compressed income scale as well as in those with higher income levels, in countries with high as well as with low levels of unemployment, and during periods of economic growth as well as recession. Wealthy households have been able to significantly improve their income position compared with middle-income households and households at the lower end of the income spectrum. That the top income earners could increase their income quite remarkably is a finding relevant for almost all European countries, and signals a break with the old distributional model where gains at the top went hand in hand with gains in the middle. Hence, the assumption that "a rising tide lifts all boats" and that wealth will trickle down has lost its power of persuasion.

Related to this is the shrinking of the middle segment of the income spectrum (Pressman 2007). Notwithstanding cross-national differences in income levels, we find that the higher the level of inequality measured by the Gini index, the smaller the share of households that falls into the middle-income range (measured as those between 70 and 150 percent of the equivalized median household income) (Burkhardt et al. 2012). Income polarization can be seen as a major driver of the shrinking of the middle-income group (Alderson et al. 2005). It has also been shown that tax and transfer systems remain important in stabilizing middle-class incomes. If they were not in place, and we would just take market income into account, the middle-income group would be 30–50 percent smaller. The role of welfare state interventions in stabilizing the middle-income segment has even increased over time (Dallinger 2012). In turn, this also means that middle-income earners have become more 'welfare dependent' and thus more vulnerable to the cost-saving and austerity measures welfare states are now facing. Over the medium and long term, we can expect that the income level and size of the middle-earner segment will not increase significantly; indeed, the opposite could be the case. Pressman (2009, 12) predicts: "Given the economic and financial crisis sweeping in the late 2000s, future prospects for the middle classes appear bleak. Job losses will erode middle-class income, and large public debts will make it difficult for national governments to ameliorate problems in the market economy."

Political disempowerment of the middle classes

While socio-economic losses of the middle class have raised increasing concern, the European middle classes have also experienced an unprecedented loss of political power. While the middle classes were long pivotal to liberal democracy and successful in channeling their interests into the political system, their majority voice has lost influence, while supranational organizations such as the International Monetary Fund (IMF) and the EU, financial markets or large multinational corporations have gained in political strength. In the countries most hit by the debt crisis, the ability of political elites to respond to the interests of the broader electorate has been diminishing. Moreover, technocratic governments shielded themselves from popular sentiment in order to fulfill the expectations of investors or international actors. The austerity measures introduced in many European countries, from the UK to Greece, affected not only the poor, but ran into conflict with the vested interests of the better-off middle classes in Europe. Whether cuts in pensions, increases in the retirement age, the retreat of the state from financing public education and the health system, the downsizing of public employment, or the lowering of unemployment benefits, regional subsidies or family benefits, all of these measures diminish the social security of broad sections of the population. Indebted states have little room for maneuver; they have to make choices that run counter to public opinion in order to secure the trust of the market or to fulfill the very concrete demands of creditors. In other words, markets increasingly restrict the options available to the members of the polity, and majoritarian democratic procedures are being replaced by executive power, which often acts on behalf of market interests (Streeck 2013). In this constellation, it is not the middle classes who are able to drive political decisions, but rather markets that lack democratic legitimation. Politicians not only pursue unpopular policies that might lead to electoral retribution, but they bypass democratic rules of the game to do so. In such a situation, the middle class' capacity to influence public policy is drastically dwindling.

However, it would be too simple to depict the middle classes merely as victims of the global financial markets or the like. While the fortunes of the middle classes primarily rest on their ability to compete successfully in the labor market and earn a living, they also pursue wealth. Given their protracted period of economic advancement, the middle classes have acquired significant assets and wealth, be it in the form of a private or occupational pension, savings, small investment or an inheritance. This 'marketization of the middle' was also pushed and facilitated by the neo-liberal paradigm of recent decades, which entailed an explicit rejection of collective responsibility and referred people more and more to the market. Here, the ambivalence of middle class interests becomes clear. As citizens and welfare state beneficiaries, their interest lays clearly in a responsive political system and a well-funded and robust social security system, but as owners of private pensions or small investments, performance comes first. As government bonds are one of the key investment areas of pension funds, these funds have some leverage in shaping domestic welfare policies. As mentioned, highly indebted countries are forced into the politics of long-term austerity with draconian cuts or cost-saving measures. The middle class sits between two chairs: they are at once both rent-seeking and in need of state protection. By all means, European states have run up debts not only vis-à-vis large investors or the Chinese national pension fund, but also against their own middle classes.

Against this background, it seems fair to say that the European middle classes are indeed in trouble, an issue which also challenges established understandings of the European Social Model. Indeed, compared with the 'Golden Age' of the post-war period, the European middle classes of today do have much to lose and probably little to gain. On the basis of survey data, the International Labour Organization (2013) has stated that as social conditions worsen, the likelihood of social unrest is increasing. Some commentators even raise the question of whether the weakening of the socio-economic status of the middle classes will undermine their loyalty to liberal democracy (Fukuyama 2012). By all means, we do not yet know how the European middle classes will react to the trends toward greater inequality, the return of insecurities and their weakened political standing. Their long-term prospects are closely tied to the development of the European Social Model, which stands at a critical crossroads. The European crisis is aggravating the situation, as belt-tightening measures dominate the political responses and further measures of liberalization are often understood as the remedy rather than the cause of the crisis. Compared with earlier periods, there is no appealing hegemonic project of the middle class that would be able to forge solidarity and social integration. The European middle classes, therefore, are truly at risk of losing out if they are unable to render the European Social Model sustainable and find a new balance between market forces, democratic participation, and social protection.

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420 West 118th Street
MC 3307, suite 1209
New York, NY 10027