



Trade Union
Advisory Committee
to the OECD
*Commission
syndicale consultative
auprès de l'OCDE*

UNDER PRESSURE: THE SQUEEZED MIDDLE CLASS

A New OECD Report on Rising Inequalities

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Key Messages

- A new report from the OECD finds that the middle-income class has been under increasing pressure over the past three decades and that this is worrying, as the middle class is regarded as the “centre of economic gravity”.
- The body of the report contains relevant analysis and findings, such as the importance of collective bargaining and minimum wages in securing better living standards for middle-incomes or the need to have more progressive taxation policies and stronger public services.
- At the same time, the summary and overview chapters are putting the main focus on investing in skills and on redistribution through tax and benefit systems. While such measures are necessary and welcome, policy attention also needs to focus on the importance of more equal primary-income distribution and the role and responsibility of business in offering decent jobs with employment stability and access to social protection.

Structure of the paper

- *Inequalities: A new OECD primer*
- *Progress from the OECD*
- *Missing points and weaknesses*

Inequalities : A new OECD primer

Over the past years, the OECD has been instrumental in putting the dismal trend of high and rising inequalities at the centre of the policy discussion. Amongst others, “*In It Together*” (2015) showed that high inequality substantially depressed economic growth while “*A Broken Social Elevator*” (2018) found that social mobility is declining, with children born into low-income families remaining stuck in low-earning situations themselves.

In a new report released yesterday, the OECD zooms in on the state of the middle classes in our economies, finding that middle-income families have been under increasing pressure over the past three decades: Growth in middle-class incomes has lagged behind, core middle-class consumption has become more expensive, labour-market uncertainty is increasing and the current generation of middle-class children have less chance of achieving the same standard of living as their parents, despite being the most educated generation. One striking statistic is that, across the OECD, one out of two middle-income households reports difficulties in making ends meet and this ratio rises to two out of three in southern and eastern European countries (page 26).

An in-depth reading shows that the OECD report has strengths but also some weaknesses.

Progress from the OECD

A central point in favour of this OECD analysis is the shift in focus: It is no longer only about the poor and the bottom 40 %, it is also about the middle 60%, with the middle class defined as households between the 75% and 200 % of the median income.

Moreover, this approach allows to bring top incomes also into the picture. Over the past decades, median incomes increased a third less than the average income of the top 10%. In some cases, this triggered a surge in the

share of incomes of top earners, for example the 1% top earners in the US managed to double their income share from 11% to 20% over the last thirty years (page 22).

The OECD motivates this additional focus by describing the middle class as the “centre of economic gravity” (page 22). By heavily investing in education, by properly funding social protection and public services, by contributing to trust in society, middle classes constitute the backbone of a healthy and thriving economy. As the OECD writes: “economic growth is stronger in countries where the middle class is stronger” (page 18).

Another striking point is that the OECD, in its analysis, explicitly sees labour-market flexibility, in particular in the form of reduced access to stable jobs, as a key factor explaining why it has become more difficult for younger generations to enter the middle class (page 27).

In a striking departure from the traditional view that the middle class is hollowed out by technological progress destroying routinised jobs in the middle, several statistics qualify this view of technological determinism. Among others is the finding that middle-class households are, to an increasing extent, composed of so-called high-skilled (cognitive non-routine) occupations. Whereas two decades ago, only one third of the total of middle-income workers held what was considered to be a high-skilled job, this share has now gone up to 50%. In other words, to be part of the middle class, workers increasingly need to take up a high-end job in terms of skills. At the same time, this implies that cognitive, non-routinised jobs are failing to deliver the same income status as in the past (page 28). The OECD correctly identifies this as a source of “social frustration”, as the investment in education done by middle-class families is no longer generating the income status that was expected. Such a trend also shows that other forces than just technology are at work.

Last but not least, one section of the report highlights the importance of collective bargaining and minimum wages. In line with previous analysis, the OECD again recognises that “the decoupling of wage from productivity demonstrates that securing productivity growth alone is not enough to secure middle-income better living standards” (page 141). The OECD also refers to the role collective bargaining and social dialogue can play in improving wages and working conditions, thereby linking up the decline in

trade union density and collective bargaining coverage with the decline of the middle class and its stagnating incomes. In a similar vein, it is also refreshing to note how the OECD is arguing the case for stronger minimum wages: The fact that minimum wage earners are to a large extent living in households that are non-poor implies that stronger minimum wages benefit middle-income households, particularly those on lower middle-incomes (page 142).

Missing points and weaknesses

While, as described above, the body of the OECD report does signal the role of collective bargaining, trade unions and social dialogue in strengthening the position of the middle class, it is regrettable that this important finding is not mentioned in the foreword, nor the executive summary, nor the overview chapter (in the latter, one –single – exception is page 32 with a short, but welcome, reference to the need to expand collective bargaining coverage to non –standard workers).

Moreover, while (page 31) in-work benefits are mentioned explicitly as part of a tax-driven fairness agenda (see further below), no reference is made to the fact that wage floors, in the form of minimum wages or collectively bargained wages, are indispensable to prevent employers from capturing part of these benefits.

To summarise, references to those issues most of relevance to trade unions and workers appear to be missing in what can be considered to be the more “political chapters”.

Instead, one key focus in this more political part is again put on the need to invest in education and skills. While there is no doubt whatsoever that such investment is necessary and highly useful, in doing so, the OECD tends to overlook its own findings, for example that “ the current generation is the most educated, yet has lower chances of achieving the same living standards as their parents”. (page 5).

At the same time, the OECD does go beyond this pure “human capital” agenda by invoking the role of progressive taxation and benefit systems.). Here, it is certainly welcome that the OECD is calling for improved public services and a lowering of the (net) tax burden on middle-incomes by

shifting taxes towards capital, property and inheritance, alongside efforts to fight tax avoidance and tax exemptions (page 32). However declaring that “the main tool to foster fairness is the tax and benefit system” (page 30) *de facto* implies that the importance of primary income distribution and the role of collective bargaining in this are downgraded.

A similar observation is to be made where labour market vulnerability and precarious jobs are concerned. Here, the OECD appears to be looking mainly at an enhanced role of social protection and active labour-market policies (including individual training accounts and universal, hence limited, social benefits). However, and as highlighted by another recent OECD report on “policy responses to new forms of work”), the role that labour law needs to play in preventing an excessive use and even abuse of non-standard forms of work is overlooked, thus leaving business off the hook from the responsibility of offering stable and secure employment relationships.